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## Section 1: 10-Q (10-Q)

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# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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## FORM 10-Q

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**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2015

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-35198

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**Pandora Media, Inc.**

(Exact name of registrant as specified in its charter)

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**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**2101 Webster Street, Suite 1650  
Oakland, CA**

(Address of principal executive offices)

**94-3352630**

(I.R.S. Employer  
Identification No.)

**94612**

(Zip Code)

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**(510) 451-4100**

(Registrant's telephone number, including area code)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted to its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of shares of registrant's common stock outstanding as of April 23, 2015 was: 211,431,314.

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**Pandora Media, Inc.**

**FORM 10-Q Quarterly Report**

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

**Pandora Media, Inc.**  
**Condensed Consolidated Balance Sheets**  
**(in thousands, except share and per share amounts)**  
**(unaudited)**

|  | As of<br>December 31,<br>2014 | As of March 31,<br>2015 |
|--|-------------------------------|-------------------------|
| <b>Assets</b>  |                               |                         |
| Current assets   |                               |                         |
| Cash and cash equivalents  | \$ 175,957                    | \$ 221,014              |
| Short-term investments   | 178,631                       | 160,566                 |
| Accounts receivable, net of allowance of \$1,218 at December 31, 2014 and \$1,859 at March 31, 2015            | 218,437                       | 188,470                 |
| Prepaid expenses and other current assets  | 15,389                        | 19,441                  |
| <b>Total current assets</b>  | <b>588,414</b>                | <b>589,491</b>          |
| Long-term investments  | 104,243                       | 99,704                  |
| Property and equipment, net  | 42,921                        | 46,718                  |
| Other long-term assets   | 13,712                        | 13,957                  |
| <b>Total assets</b>  | <b>\$ 749,290</b>             | <b>\$ 749,870</b>       |
| <b>Liabilities and stockholders' equity</b>  |                               |                         |
| Current liabilities  |                               |                         |
| Accounts payable   | \$ 10,825                     | \$ 14,879               |
| Accrued liabilities  | 15,754                        | 21,789                  |
| Accrued royalties  | 73,693                        | 80,574                  |
| Deferred revenue   | 14,412                        | 26,740                  |
| Accrued compensation   | 34,476                        | 27,968                  |
| <b>Total current liabilities</b>   | <b>149,160</b>                | <b>171,950</b>          |
| Other long-term liabilities  | 16,773                        | 15,246                  |
| <b>Total liabilities</b>   | <b>165,933</b>                | <b>187,196</b>          |
| <b>Stockholders' equity</b>  |                               |                         |
| Common stock: 209,071,488 shares issued and outstanding at December 31, 2014 and 211,381,339 at March 31, 2015 | 21                            | 21                      |
| Additional paid-in capital   | 781,009                       | 808,124                 |
| Accumulated deficit  | (196,997)                     | (245,254)               |
| Accumulated other comprehensive loss   | (676)                         | (217)                   |
| <b>Total stockholders' equity</b>  | <b>583,357</b>                | <b>562,674</b>          |
| <b>Total liabilities and stockholders' equity</b>  | <b>\$ 749,290</b>             | <b>\$ 749,870</b>       |

The accompanying notes are an integral part of the condensed consolidated financial statements.

**Pandora Media, Inc.**  
**Condensed Consolidated Statements of Operations**  
**(in thousands, except per share amounts)**  
**(unaudited)**

|   | <b>Three months ended</b> |             |
|---|---------------------------|-------------|
|   | <b>March 31,</b>          |             |
|   | <b>2014</b>               | <b>2015</b> |
| Revenue   |                           |             |
| Advertising   | \$ 140,634                | \$ 178,739  |
| Subscription and other  | 53,681                    | 52,025      |
| Total revenue   | 194,315                   | 230,764     |
| Cost of revenue   |                           |             |
| Cost of revenue - Content acquisition costs   | 108,275                   | 126,023     |
| Cost of revenue - Other   | 14,979                    | 16,233      |
| Total cost of revenue   | 123,254                   | 142,256     |
| Gross profit  | 71,061                    | 88,508      |
| Operating expenses  |                           |             |
| Product development   | 11,831                    | 15,875      |
| Sales and marketing   | 61,864                    | 84,274      |
| General and administrative  | 26,361                    | 36,754      |
| Total operating expenses  | 100,056                   | 136,903     |
| Loss from operations  | (28,995)                  | (48,395)    |
| Other income, net   | 92                        | 197         |
| Loss before provision for income taxes  | (28,903)                  | (48,198)    |
| Provision for income taxes  | (28)                      | (59)        |
| Net loss  | \$ (28,931)               | \$ (48,257) |
| Weighted-average common shares outstanding used in computing basic and diluted net loss per share | 199,857                   | 209,928     |
| Net loss per share, basic and diluted   | \$ (0.14)                 | \$ (0.23)   |

The accompanying notes are an integral part of the condensed consolidated financial statements.

**Pandora Media, Inc.**  
**Condensed Consolidated Statements of Comprehensive Loss**  
**(in thousands)**  
**(unaudited)**

|  | <b>Three months ended</b> |                    |
|--|---------------------------|--------------------|
|  | <b>March 31,</b>          |                    |
|  | <b>2014</b>               | <b>2015</b>        |
| Net loss   | \$ (28,931)               | \$ (48,257)        |
| Change in foreign currency translation adjustment        | 19                        | (99)               |
| Change in net unrealized losses on marketable securities | 114                       | 558                |
| Other comprehensive income                               | 133                       | 459                |
| Total comprehensive loss                                 | <u>\$ (28,798)</u>        | <u>\$ (47,798)</u> |

The accompanying notes are an integral part of the condensed consolidated financial statements.

**Pandora Media, Inc.**  
**Condensed Consolidated Statements of Cash Flows**  
**(in thousands)**  
**(unaudited)**

|  | <b>Three months ended</b> |             |
|--|---------------------------|-------------|
|  | <b>March 31,</b>          |             |
|  | <b>2014</b>               | <b>2015</b> |
| Operating activities   |                           |             |
| Net loss   | \$ (28,931)               | \$ (48,257) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities |                           |             |
| Depreciation and amortization  | 3,346                     | 4,340       |
| Stock-based compensation   | 17,392                    | 23,195      |
| Amortization of premium on investments, net  | 694                       | 619         |
| Other operating activities   | 123                       | 834         |
| Changes in operating assets and liabilities  |                           |             |
| Accounts receivable  | 15,629                    | 29,182      |
| Prepaid expenses and other assets  | (5,099)                   | (5,076)     |
| Accounts payable and accrued liabilities   | 1,401                     | 6,562       |
| Accrued royalties  | 8,585                     | 6,896       |
| Accrued compensation   | (735)                     | (4,390)     |
| Deferred revenue   | (14,527)                  | 12,328      |
| Reimbursement of cost of leasehold improvements  | —                         | 749         |
| Net cash provided by (used in) operating activities                                      | (2,122)                   | 26,982      |
| Investing activities   |                           |             |
| Purchases of property and equipment  | (11,887)                  | (5,931)     |
| Purchases of investments   | (115,589)                 | (56,790)    |
| Proceeds from maturities of investments  | 34,010                    | 78,489      |
| Proceeds from sale of long-term investments  | —                         | 640         |
| Net cash provided by (used in) investing activities                                      | (93,466)                  | 16,408      |
| Financing activities   |                           |             |
| Proceeds from employee stock purchase plan   | 863                       | 1,619       |
| Proceeds from exercise of stock options  | 9,751                     | 1,094       |
| Tax withholdings related to net share settlements of restricted stock units              | —                         | (888)       |
| Net cash provided by financing activities  | 10,614                    | 1,825       |
| Effect of exchange rate changes on cash and cash equivalents                             | 15                        | (158)       |
| Net increase (decrease) in cash and cash equivalents                                     | (84,959)                  | 45,057      |
| Cash and cash equivalents at beginning of period   | 245,755                   | 175,957     |
| Cash and cash equivalents at end of period   | \$ 160,796                | \$ 221,014  |

The accompanying notes are an integral part of the condensed consolidated financial statements.

**Pandora Media, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**(unaudited)**

**1. Description of Business and Basis of Presentation**

Pandora Media, Inc. provides an internet radio service offering a personalized experience for each listener wherever and whenever they want to listen to radio on a wide range of smartphones, tablets, computers and car audio systems, as well as a range of other internet-connected devices. We have pioneered a new form of radio—one that uses intrinsic qualities of music to initially create stations and then adapts playlists in real-time based on the individual feedback of each listener. We generate a majority of our revenue by offering local and national advertisers an opportunity to deliver targeted messages to our listeners using a combination of audio, display and video advertisements. We also generate revenue by offering a paid subscription service which we call Pandora One. We were incorporated as a California corporation in January 2000 and reincorporated as a Delaware corporation in December 2010. Our principal operations are located in the United States; we also operate in Australia and New Zealand.

As used herein, “Pandora,” “we,” “our,” the “Company” and similar terms include Pandora Media, Inc. and its subsidiaries, unless the context indicates otherwise.

*Basis of Presentation*

The interim unaudited condensed consolidated financial statements and accompanying notes have been prepared in accordance with United States generally accepted accounting principles (“U.S. GAAP”) and include the accounts of Pandora and our wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. In the opinion of our management, the interim unaudited condensed consolidated financial statements include all adjustments, which include only normal recurring adjustments, necessary for the fair presentation of our financial position for the periods presented. These interim unaudited condensed consolidated financial statements are not necessarily indicative of the results expected for the full fiscal year or for any subsequent period and should be read in conjunction with the audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2014.

Certain changes in presentation have been made to conform the prior period presentation to current period reporting. We have reclassified certain compensation-related amounts from the accrued liabilities line item to the accrued compensation line item of our condensed consolidated balance sheets and our condensed consolidated statements of cash flows. In addition, we have reclassified certain non-cash amounts from the amortization of debt issuance costs and the change in accounts receivable line items to the other operating activities line item in our condensed consolidated statements of cash flows. We have also reclassified certain non-cash amounts from the purchases of property and equipment line item to the prepaid expenses and other assets line item of our condensed consolidated statements of cash flows.

*Use of Estimates*

The preparation of financial statements in conformity with U.S. GAAP requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and the related disclosures at the date of the financial statements, as well as the reported amounts of revenue and expenses during the periods presented. Estimates are used in several areas including, but not limited to determining accrued royalties, selling prices for elements sold in multiple-element arrangements, the allowance for doubtful accounts, the fair value of stock options and market stock units, the impact of forfeitures on stock-based compensation, the provision for (benefit from) income taxes and the subscription return reserve. To the extent there are material differences between these estimates, judgments, or assumptions and actual results, our financial statements could be affected. In many cases, the accounting treatment of a particular transaction is specifically dictated by U.S. GAAP and does not require management’s judgment in its application. There are also areas in which management’s judgment in selecting among available alternatives would not produce a materially different result.

**2. Summary of Significant Accounting Policies**

Other than discussed below, there have been no material changes to our significant accounting policies as compared to those described in our Annual Report on Form 10-K for the year ended December 31, 2014.

*Stock-Based Compensation — Market Stock Units (“MSUs”)*



**Pandora Media, Inc.**  
**Notes to Condensed Consolidated Financial Statements - Continued**  
**(unaudited)**

We implemented a market stock unit program in March 2015 for certain key executives. Specifically, MSUs measure Pandora's total stockholder return ("TSR") performance against that of the Russell 2000 Index across three performance periods.

We have determined the grant-date fair value of the MSUs using a Monte Carlo simulation performed by a third-party valuation specialist. The Monte Carlo simulation model utilizes multiple input variables to estimate the probability that market conditions will be achieved. These variables include our expected stock price volatility over the expected term of the award, actual and projected employee stock option exercise behaviors and the risk-free interest rate for the expected term of the award. The variables used in these models are reviewed on an annual basis and adjusted, as needed. We recognize stock-based compensation for the MSUs over the requisite service period using the accelerated attribution method.

*Concentration of Credit Risk*

For the three months ended March 31, 2014 and 2015, we had no customers that accounted for more than 10% of our total revenue. As of December 31, 2014 and March 31, 2015, we had no customers that accounted for more than 10% of our total accounts receivable.

*Recently Issued Accounting Standards*

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-9, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-9"). ASU 2014-9 outlines a single comprehensive model for entities to use in accounting for revenue. Under the guidance, revenue is recognized when a company transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The standard may be effective for public entities with annual and interim reporting periods beginning after December 15, 2016. Entities have the option of using either a full retrospective or a modified retrospective approach to adopt the guidance. We are currently evaluating implementation methods and the effect that implementation of this standard will have on our consolidated financial statements upon adoption.

In August 2014, the FASB issued Accounting Standards Update No. 2014-15, *Going Concern (Subtopic 205-40)* ("ASU 2014-15"). ASU 2014-15 requires management of all entities to evaluate whether there are conditions and events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the financial statements are issued (or available to be issued when applicable). The guidance is effective for fiscal years beginning after December 15, 2016 and for interim periods within that fiscal year. We do not expect the adoption of this guidance to have a material effect on our consolidated financial statements.

In April 2015, the FASB issued Accounting Standards Update No. 2015-03, *Interest - Imputation of Interest (Subtopic 835-30)* ("ASU 2015-03"). ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The guidance is effective for fiscal years beginning after December 15, 2015, and interim periods within that fiscal year. We do not expect the adoption of this guidance to have a material effect on our consolidated financial statements.

**3. Cash, Cash Equivalents and Investments**

Cash, cash equivalents and investments consisted of the following:

**Pandora Media, Inc.**  
**Notes to Condensed Consolidated Financial Statements - Continued**  
**(unaudited)**

|   | As of<br>December 31,<br>2014 | As of<br>March 31,<br>2015 |
|---|-------------------------------|----------------------------|
|   | (in thousands)                |                            |
| <b>Cash and cash equivalents</b>                      |                               |                            |
| Cash  | \$ 72,487                     | \$ 93,900                  |
| Money market funds                                    | 89,113                        | 93,160                     |
| Commercial paper                                      | 9,349                         | 29,199                     |
| Corporate debt securities                             | 5,008                         | 4,755                      |
| <b>Total cash and cash equivalents</b>                | <b>\$ 175,957</b>             | <b>\$ 221,014</b>          |
| <b>Short-term investments</b>                         |                               |                            |
| Commercial paper                                      | \$ 45,443                     | \$ 23,635                  |
| Corporate debt securities                             | 128,691                       | 132,433                    |
| U.S. government and government agency debt securities | 4,497                         | 4,498                      |
| <b>Total short-term investments</b>                   | <b>\$ 178,631</b>             | <b>\$ 160,566</b>          |
| <b>Long-term investments</b>                          |                               |                            |
| Corporate debt securities                             | \$ 100,998                    | \$ 96,455                  |
| U.S. government and government agency debt securities | 3,245                         | 3,249                      |
| <b>Total long-term investments</b>                    | <b>\$ 104,243</b>             | <b>\$ 99,704</b>           |
| <b>Cash, cash equivalents and investments</b>         | <b>\$ 458,831</b>             | <b>\$ 481,284</b>          |

Our short-term investments have maturities of twelve months or less and are classified as available-for-sale. Our long-term investments have maturities of greater than twelve months and are classified as available-for-sale.

The following tables summarize our available-for-sale securities' adjusted cost, gross unrealized gains, gross unrealized losses and fair value by significant investment category as of December 31, 2014 and March 31, 2015.

|   | As of December 31, 2014 |                     |                      |                   |
|---|-------------------------|---------------------|----------------------|-------------------|
|   | Adjusted<br>Cost        | Unrealized<br>Gains | Unrealized<br>Losses | Fair<br>Value     |
|   | (in thousands)          |                     |                      |                   |
| Money market funds                                      | \$ 89,113               | \$ —                | \$ —                 | \$ 89,113         |
| Commercial paper  | 54,792                  | —                   | —                    | 54,792            |
| Corporate debt securities                               | 235,135                 | 6                   | (444)                | 234,697           |
| U.S. government and government agency debt securities   | 7,751                   | —                   | (9)                  | 7,742             |
| <b>Total cash equivalents and marketable securities</b> | <b>\$ 386,791</b>       | <b>\$ 6</b>         | <b>\$ (453)</b>      | <b>\$ 386,344</b> |

|   | As of March 31, 2015 |                     |                      |                   |
|---|----------------------|---------------------|----------------------|-------------------|
|   | Adjusted<br>Cost     | Unrealized<br>Gains | Unrealized<br>Losses | Fair<br>Value     |
|   | (in thousands)       |                     |                      |                   |
| Money market funds                                      | \$ 93,160            | \$ —                | \$ —                 | \$ 93,160         |
| Commercial paper  | 52,834               | —                   | —                    | 52,834            |
| Corporate debt securities                               | 233,528              | 269                 | (154)                | 233,643           |
| U.S. government and government agency debt securities   | 7,751                | 2                   | (6)                  | 7,747             |
| <b>Total cash equivalents and marketable securities</b> | <b>\$ 387,273</b>    | <b>\$ 271</b>       | <b>\$ (160)</b>      | <b>\$ 387,384</b> |

**Pandora Media, Inc.**  
**Notes to Condensed Consolidated Financial Statements - Continued**  
(unaudited)

The following table presents available-for-sale investments by contractual maturity date as of December 31, 2014 and March 31, 2015.

|  | As of December 31, 2014 |                   |
|--|-------------------------|-------------------|
|  | Adjusted<br>Cost        | Fair Value        |
|  | (in thousands)          |                   |
| Due in one year or less                | \$ 282,206              | \$ 282,101        |
| Due after one year through three years | 104,585                 | 104,243           |
| <b>Total</b>                           | <b>\$ 386,791</b>       | <b>\$ 386,344</b> |

  

|  | As of March 31, 2015 |                   |
|--|----------------------|-------------------|
|  | Adjusted<br>Cost     | Fair Value        |
|  | (in thousands)       |                   |
| Due in one year or less                | \$ 287,571           | \$ 287,680        |
| Due after one year through three years | 99,702               | 99,704            |
| <b>Total</b>                           | <b>\$ 387,273</b>    | <b>\$ 387,384</b> |

The following tables summarize our available-for-sale securities' fair value and gross unrealized losses aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position as of December 31, 2014 and March 31, 2015.

|  | As of December 31, 2014 |                               |                         |                               |                   |                               |
|--|-------------------------|-------------------------------|-------------------------|-------------------------------|-------------------|-------------------------------|
|  | Twelve Months or Less   |                               | More than Twelve Months |                               | Total             |                               |
|  | Fair<br>Value           | Gross<br>Unrealized<br>Losses | Fair<br>Value           | Gross<br>Unrealized<br>Losses | Fair<br>Value     | Gross<br>Unrealized<br>Losses |
|  | (in thousands)          |                               |                         |                               |                   |                               |
| Money market funds                                       | \$ —                    | \$ —                          | \$ —                    | \$ —                          | \$ —              | \$ —                          |
| Commercial paper   | —                       | —                             | —                       | —                             | —                 | —                             |
| Corporate debt securities                                | 192,699                 | (422)                         | 12,148                  | (22)                          | 204,847           | (444)                         |
| U.S. government and government agency<br>debt securities | 5,240                   | (9)                           | —                       | —                             | 5,240             | (9)                           |
| <b>Total</b>   | <b>\$ 197,939</b>       | <b>\$ (431)</b>               | <b>\$ 12,148</b>        | <b>\$ (22)</b>                | <b>\$ 210,087</b> | <b>\$ (453)</b>               |

|  | As of March 31, 2015  |                               |                         |                               |                   |                               |
|--|-----------------------|-------------------------------|-------------------------|-------------------------------|-------------------|-------------------------------|
|  | Twelve Months or Less |                               | More than Twelve Months |                               | Total             |                               |
|  | Fair<br>Value         | Gross<br>Unrealized<br>Losses | Fair<br>Value           | Gross<br>Unrealized<br>Losses | Fair<br>Value     | Gross<br>Unrealized<br>Losses |
|  | (in thousands)        |                               |                         |                               |                   |                               |
| Money market funds                                       | \$ —                  | \$ —                          | \$ —                    | \$ —                          | \$ —              | \$ —                          |
| Commercial paper   | —                     | —                             | —                       | —                             | —                 | —                             |
| Corporate debt securities                                | 117,964               | (143)                         | 10,737                  | (11)                          | 128,701           | (154)                         |
| U.S. government and government agency<br>debt securities | 3,249                 | (1)                           | 1,995                   | (5)                           | 5,244             | (6)                           |
| <b>Total</b>   | <b>\$ 121,213</b>     | <b>\$ (144)</b>               | <b>\$ 12,732</b>        | <b>\$ (16)</b>                | <b>\$ 133,945</b> | <b>\$ (160)</b>               |

**Pandora Media, Inc.**  
**Notes to Condensed Consolidated Financial Statements - Continued**  
**(unaudited)**

Our investment policy requires investments to be investment grade, primarily rated “A1” by Standard & Poor’s or “P1” by Moody’s or better for short-term investments and rated “A” by Standard & Poor’s or “A2” by Moody’s or better for long-term investments, with the objective of minimizing the potential risk of principal loss. In addition, the investment policy limits the amount of credit exposure to any one issuer.

The unrealized losses on our available-for-sale securities as of March 31, 2015 were primarily a result of unfavorable changes in interest rates subsequent to the initial purchase of these securities. As of March 31, 2015, we owned 101 securities that were in an unrealized loss position. We do not intend nor expect to need to sell these securities before recovering the associated unrealized losses. We expect to recover the full carrying value of these securities. As a result, no portion of the unrealized losses at March 31, 2015 is deemed to be other-than-temporary and the unrealized losses are not deemed to be credit losses. When evaluating the investments for other-than-temporary impairment, we review factors such as the length of time and extent to which fair value has been below cost basis, the financial condition of the issuer and any changes thereto, and our intent to sell, or whether it is more likely than not we will be required to sell, the investment before recovery of the investment’s amortized cost basis. During the three months ended March 31, 2015, we did not recognize any impairment charges.

#### 4. Fair Value

We record cash equivalents and short-term investments at fair value. Fair value is an exit price, representing the amount that would be received from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. Fair value measurements are required to be disclosed by level within the following fair value hierarchy:

Level 1 — Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 — Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument’s anticipated life.

Level 3 — Inputs lack observable market data to corroborate management’s estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

When determining fair value, whenever possible we use observable market data and rely on unobservable inputs only when observable market data is not available.

The fair value of these financial assets and liabilities was determined using the following inputs at December 31, 2014 and March 31, 2015:

|   | As of December 31, 2014   |  |                   |
|---|---|--|-------------------|
|   | Fair Value Measurement Using  |  |                   |
|   | Quoted Prices in<br>Active Markets<br>for Identical<br>Instruments<br>(Level 1) | Significant Other<br>Observable<br>Inputs<br>(Level 2) | Total             |
|   | (in thousands)  |  |                   |
| <b>Assets</b>   |   |  |                   |
| Money market funds                                    | \$ 89,113   | \$ —   | \$ 89,113         |
| Commercial paper                                      | —   | 54,792   | 54,792            |
| Corporate debt securities                             | —   | 234,697  | 234,697           |
| U.S. government and government agency debt securities | —   | 7,742  | 7,742             |
| Total assets measured at fair value                   | <u>\$ 89,113</u>  | <u>\$ 297,231</u>                                      | <u>\$ 386,344</u> |

**Pandora Media, Inc.**  
**Notes to Condensed Consolidated Financial Statements - Continued**  
**(unaudited)**

|   | As of March 31, 2015  |  |                   |
|---|---|--|-------------------|
|   | Fair Value Measurement Using  |  |                   |
|   | Quoted Prices in<br>Active Markets<br>for Identical<br>Instruments<br>(Level 1) | Significant Other<br>Observable<br>Inputs<br>(Level 2) | Total             |
|   | (in thousands)  |  |                   |
| <b>Assets</b>   |   |  |                   |
| Money market funds                                    | \$ 93,160   | \$ —   | \$ 93,160         |
| Commercial paper                                      | —   | 52,834   | 52,834            |
| Corporate debt securities                             | —   | 233,643  | 233,643           |
| U.S. government and government agency debt securities | —   | 7,747  | 7,747             |
| Total assets measured at fair value                   | <u>\$ 93,160</u>  | <u>\$ 294,224</u>                                      | <u>\$ 387,384</u> |

Our money market funds are classified as Level 1 within the fair value hierarchy because they are valued primarily using quoted market prices. Our other cash equivalents and short-term investments are classified as Level 2 within the fair value hierarchy because they are valued using professional pricing sources for identical or comparable instruments, rather than direct observations of quoted prices in active markets. As of December 31, 2014 and March 31, 2015, we held no Level 3 assets or liabilities.

## 5. Commitments and Contingencies

### *Legal Proceedings*

We have been in the past, and continue to be, a party to privacy and patent infringement litigation which has consumed, and may continue to consume, financial and managerial resources. We are also from time to time subject to various other legal proceedings and claims arising in the ordinary course of our business. We record a liability when we believe that it is both probable that a loss has been incurred and the amount can be reasonably estimated. Our management periodically evaluates developments that could affect the amount, if any, of liability that we have previously accrued and make adjustments as appropriate. Determining both the likelihood and the estimated amount of a loss requires significant judgment, and management's judgment may be incorrect. We do not believe the ultimate resolution of any pending legal matters is likely to have a material adverse effect on our business, financial position, results of operations or cash flows.

### *Performing Rights Organization ("PRO") rate-setting litigation*

On November 5, 2012, we filed a petition in the rate court established by the consent decree between the American Society of Composers, Authors and Publishers ("ASCAP") and the U.S. Department of Justice in the U.S. District Court for the Southern District of New York for the determination of reasonable license fees and terms for the ASCAP consent decree license applicable to the period January 1, 2011 through December 31, 2015. On June 11, 2013, we filed a motion for partial summary judgment seeking a determination that, as a matter of law, the publishers alleged to have withdrawn certain rights of public performance by digital audio transmission from the scope of grant of rights ASCAP could license on behalf of such publishers subsequent to the date of our request for a license from ASCAP were not valid as to our ASCAP consent decree license. On September 17, 2013, our motion for partial summary judgment was granted, alleviating the need to negotiate direct licenses for such purportedly withdrawn performance rights. A trial to determine the royalty rates we will pay ASCAP for the period from January 1, 2011 through December 31, 2015 concluded in February 2014 and the court issued its opinion in March 2014. On April 14, 2014, ASCAP, Sony/ATV, EMI Music Publishing, and Universal Publishing Group filed notices of appeal of the district court's decision with the Second Circuit Court of Appeals. Oral arguments were held on March 19, 2015 and the parties are currently awaiting the appellate court's decision.

On June 13, 2013, Broadcast Music, Inc. ("BMI") filed a petition in the rate court established by the consent decree between BMI and the U.S. Department of Justice in the U.S. District Court for the Southern District of New York for the determination of reasonable fees and terms for the BMI consent decree license. We filed our response on July 19, 2013. While we seek a determination applicable to the period from January 1, 2013 through December 31, 2017, BMI has limited its requested determination to only cover January 1, 2013 through December 31, 2016. On November 1, 2013, we filed a motion

**Pandora Media, Inc.**  
**Notes to Condensed Consolidated Financial Statements - Continued**  
**(unaudited)**

for partial summary judgment seeking a determination that, as a matter of law, the publishers alleged to have withdrawn certain rights of public performance by digital audio transmission from the scope of grant of rights BMI could license on behalf of such publishers subsequent to the date of our request for a license from BMI were not valid as to our BMI consent decree license. On December 18, 2013, our motion for summary judgment was denied based on the Court's determination that an attempted partial withdrawal, although inconsistent with BMI's obligations under its consent decree, would result in a publisher's complete withdrawal from BMI. This rate proceeding commenced on February 10, 2015 and ended on March 13, 2015. The parties are currently awaiting the district court's determination.

*Pre-1972 copyright litigation*

On April 17, 2014, UMG Recordings, Inc., Sony Music Entertainment, Capitol Records, LLC, Warner Music Group Corp., and ABKCO Music and Records, Inc. filed suit against Pandora Media Inc. in the Supreme Court of the State of New York. The complaint claims common law copyright infringement and unfair competition arising from allegations that Pandora owes royalties for the public performance of sound recordings recorded prior to February 15, 1972.

On October 2, 2014, Flo & Eddie Inc. filed suit against Pandora Media Inc. in the federal district court for the Central District of California. The complaint alleges misappropriation and conversion in connection with the public performance of sound recordings recorded prior to February 15, 1972. On December 19, 2014, Pandora filed a motion to strike the complaint pursuant to California's Anti-Strategic Lawsuit Against Public Participation ("Anti-SLAPP") statute. This motion was denied and Pandora has appealed the ruling to the Ninth Circuit Court of Appeals.

The outcome of any litigation is inherently uncertain. Based on our current knowledge we do not believe it is probable that the final outcome of the matters discussed above will, individually or in the aggregate, have a material adverse effect on our business, financial position, results of operations or cash flows; however, in light of the uncertainties involved in such matters, there can be no assurance that the outcome of each case or the costs of litigation, regardless of outcome, will not have a material adverse effect on our business. In particular, rate court proceedings could take years to complete, could be very costly and may result in current and past royalty rates that are materially less favorable than rates we currently pay or have paid in the past.

*Indemnification Agreements, Guarantees and Contingencies*

In the ordinary course of business, we are party to certain contractual agreements under which we may provide indemnifications of varying scope, terms and duration to customers, vendors, lessors, business partners and other parties with respect to certain matters, including, but not limited to, losses arising out of breach of such agreements, services to be provided by us or from intellectual property infringement claims made by third parties. In addition, we have entered into indemnification agreements with directors and certain officers and employees that will require us, among other things, to indemnify them against certain liabilities that may arise by reason of their status or service as directors, officers or employees. Such indemnification provisions are accounted for in accordance with guarantor's accounting and disclosure requirements for guarantees, including indirect guarantees of indebtedness of others. To date, we have not incurred, do not anticipate incurring and therefore have not accrued for, any costs related to such indemnification provisions.

While the outcome of these matters cannot be predicted with certainty, we do not believe that the outcome of any claims under indemnification arrangements will have a material adverse effect on our financial position, results of operations or cash flows.

**6. Other Long-Term Assets**

**Pandora Media, Inc.**  
**Notes to Condensed Consolidated Financial Statements - Continued**  
**(unaudited)**

|                                     | As of<br>December 31,<br>2014 | As of<br>March 31,<br>2015 |
|-------------------------------------|-------------------------------|----------------------------|
|                                     | (in thousands)                |                            |
| Other long-term assets              |                               |                            |
| Patents, net of amortization        | \$ 6,939                      | \$ 6,756                   |
| Long-term security deposits         | 4,947                         | 5,333                      |
| Other                               | 1,826                         | 1,868                      |
| <b>Total other long-term assets</b> | <b>\$ 13,712</b>              | <b>\$ 13,957</b>           |

*Pending Acquisition*

In June 2013, we entered into a local marketing agreement to program KXMZ-FM, a Rapid City, South Dakota-area terrestrial radio station. In addition, we entered into an agreement to purchase the assets of KXMZ-FM for a total purchase price of approximately \$0.6 million in cash, subject to certain closing conditions. As of March 31, 2015, we have paid \$0.4 million of the purchase price, which is included in the other long-term assets line item of our balance sheets.

The completion of the KXMZ-FM acquisition is subject to various closing conditions, which include, but are not limited to, regulatory approval by the Federal Communications Commission. Upon completion of these conditions, we expect to account for this acquisition as a business combination.

**7. Debt Instruments**

We are party to a \$60.0 million credit facility with a syndicate of financial institutions, which expires on September 12, 2018. As of March 31, 2015, we had no borrowings outstanding, \$1.1 million in letters of credit outstanding and \$58.9 million of available borrowing capacity under the credit facility. We are in compliance with all financial covenants associated with the credit facility as of March 31, 2015.

**8. Stock-based Compensation Plans and Awards**

*Employee Stock Purchase Plan ("ESPP")*

The Employee Stock Purchase Plan allows eligible employees to purchase shares of our common stock through payroll deductions of up to 15% of their eligible compensation. The ESPP provides for six-month offering periods, commencing in February and August of each year.

The per-share fair value of shares to be granted under the ESPP is determined on the first day of the offering period using the Black-Scholes option pricing model using the following assumptions:

|                          | Three months ended March 31, |            |
|--------------------------|------------------------------|------------|
|                          | 2014                         | 2015       |
| Expected life (in years) | 0.5                          | 0.5        |
| Risk-free interest rate  | 0.08%                        | 0.05-0.07% |
| Expected volatility      | 42%                          | 42%        |
| Expected dividend yield  | 0%                           | 0%         |

During the three months ended March 31, 2014 and 2015, we withheld \$0.9 million and \$1.6 million in contributions from employees and recognized \$0.3 million and \$0.6 million of stock-based compensation expense related to the ESPP, respectively. In the three months ended March 31, 2015, 282,966 shares of common stock were issued under the ESPP.

*Employee Stock-Based Awards*

**Pandora Media, Inc.**  
**Notes to Condensed Consolidated Financial Statements - Continued**  
**(unaudited)**

Our 2011 Equity Incentive Plan (the “2011 Plan”) provides for the issuance of stock options, restricted stock units and other stock-based awards to our employees. The 2011 Plan is administered by the compensation committee of our board of directors.

*Stock options*

We measure stock-based compensation expenses for stock options at the grant date fair value of the award and recognize expenses on a straight-line basis over the requisite service period, which is generally the vesting period. We estimate the fair value of stock options using the Black-Scholes option-pricing model. During the three months ended March 31, 2014 and 2015, we recorded stock-based compensation expense from stock options of approximately \$3.5 million and \$2.9 million.

There were no options granted in the three months ended March 31, 2015.

*Restricted stock units (“RSUs”)*

The fair value of the restricted stock units is expensed ratably over the vesting period. RSUs typically have an initial annual cliff vest and then vest quarterly thereafter over the service period, which is generally four years. During the three months ended March 31, 2014 and 2015, we recorded stock-based compensation expense from RSUs of approximately \$13.6 million and \$19.6 million.

*Market stock units*

We implemented a market stock unit program in March 2015 for certain key executives. Specifically, MSUs measure Pandora’s TSR performance against that of the Russell 2000 Index across three performance periods. Pandora’s relative TSR is calculated using the average adjusted closing stock price of Pandora stock, and the Russell 2000 Index, for ninety calendar days prior to the beginning of each performance period and the last ninety calendar days of the performance period. The target MSUs are divided across three performance periods as follows:

- One-third of the target MSUs are eligible to be earned for a performance period that is the first calendar year of the MSU grant (the “One-Year Performance Period”);
- One-third of the target MSUs are eligible to be earned for a performance period that is the first two calendar years of the MSU grant (the “Two-Year Performance Period”); and
- Any remaining portion of the target MSUs are eligible to be earned for a performance period that is the entire three calendar years of the MSU grant (the “Three-Year Performance Period”).

For each performance period, a “performance multiplier” is calculated by comparing Pandora’s relative TSR for the period to the Russell 2000 Index TSR for the same period. The target number of shares will vest if the Pandora TSR is equal to the Russell 2000 Index TSR for the period. For each percentage point that the Pandora TSR falls below the Russell 2000 Index TSR for the period, the performance multiplier is decreased by three percentage points. The performance multiplier is capped at 100% for the One-Year and Two-Year Performance Periods. However, the full award is eligible for a payout up to 200% of target with all upside tied to the Three-Year Performance Period. For each percentage point that the Pandora TSR exceeds the Russell 2000 Index TSR for the Three-Year Performance Period, the performance multiplier is increased by 2%.

We have determined the grant-date fair value of the MSUs using a Monte Carlo simulation performed by a third-party valuation firm. We recognize stock-based compensation for the MSUs over the requisite service period, which is approximately three years, using the accelerated attribution method. During the three months ended March 31, 2015, we granted 776,000 MSUs at a total grant-date fair value of \$4.3 million. During the three months ended March 31, 2015, we recognized \$0.1 million in stock-based compensation expense from MSUs.

*Stock-based Compensation Expense*

Stock-based compensation expense related to all employee and non-employee stock-based awards was as follows:



**Pandora Media, Inc.**  
**Notes to Condensed Consolidated Financial Statements - Continued**  
**(unaudited)**

|   | <b>Three months ended<br/>March 31,</b> |             |
|---|---|-------------|
|   | <b>2014</b>                             | <b>2015</b> |
|   | <b>(in thousands)<br/>(unaudited)</b>   |             |
| <b>Stock-based compensation expense</b> |   |             |
| Cost of revenue - Other                 | \$ 881                                  | \$ 1,207    |
| Product development                     | 3,461                                   | 4,605       |
| Sales and marketing                     | 8,311                                   | 11,344      |
| General and administrative              | 4,739                                   | 6,039       |
| Total stock-based compensation expense  | \$ 17,392                               | \$ 23,195   |

**9. Net Loss Per Share**

Basic net loss per share is computed by dividing the net loss by the weighted-average number of shares of common stock outstanding during the period.

Diluted net loss per share is computed by giving effect to all potential shares of common stock, including stock options and restricted stock units, to the extent dilutive. Basic and diluted net loss per share were the same for the three months ended March 31, 2014 and 2015, as the inclusion of all potential common shares outstanding would have been anti-dilutive.

The following table sets forth the computation of historical basic and diluted net loss per share:

|   | <b>Three months ended March 31,</b>                |             |
|---|--|-------------|
|   | <b>2014</b>  | <b>2015</b> |
|   | <b>(in thousands except per share<br/>amounts)</b> |             |
| <b>Numerator</b>  |  |             |
| Net loss  | \$ (28,931)  | \$ (48,257) |
| <b>Denominator</b>  |  |             |
| Weighted-average common shares outstanding used in computing basic and diluted net loss per share | 199,857  | 209,928     |
| Net loss per share, basic and diluted   | \$ (0.14)  | \$ (0.23)   |

The following potential common shares outstanding were excluded from the computation of diluted net loss per share because including them would have been anti-dilutive:

|                                  | <b>As of March 31,</b> |             |
|----------------------------------|------------------------|-------------|
|                                  | <b>2014</b>            | <b>2015</b> |
|                                  | <b>(in thousands)</b>  |             |
| Options to purchase common stock | 13,518                 | 10,787      |
| Restricted stock units           | 11,752                 | 15,764      |
| Market stock units               | —                      | 776         |
| Total common stock equivalents   | 25,270                 | 27,327      |

## Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”)

*You should read the following discussion of our financial condition and results of operations in conjunction with the condensed consolidated financial statements and the notes thereto included elsewhere in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2014 filed with the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended (the “Exchange Act”).*

*This Quarterly Report on Form 10-Q contains “forward-looking statements” that involve substantial risks and uncertainties. The statements contained in this Quarterly Report on Form 10-Q that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”) and Section 21E of the Exchange Act, including, but not limited to, statements regarding our expectations, beliefs, intentions, strategies, future operations, future financial position, future revenue, projected expenses, plans and objectives of management and economic, competitive and technological trends. In some cases, you can identify forward-looking statements by terms such as “anticipate,” “believe,” “estimate,” “expect,” “intend,” “may,” “might,” “plan,” “project,” “will,” “would,” “should,” “could,” “can,” “predict,” “potential,” “continue,” “objective,” or the negative of these terms, and similar expressions intended to identify forward-looking statements. However, not all forward-looking statements contain these identifying words. These forward-looking statements reflect our current views about future events and involve known risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievement to be materially different from those expressed or implied by the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled “Risk Factors” included in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2014. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements. We qualify all of our forward-looking statements by these cautionary statements. These and other factors could cause our results to differ materially from those expressed in this Quarterly Report on Form 10-Q.*

*Some of the industry and market data contained in this Quarterly Report on Form 10-Q are based on independent industry publications, including those generated by Triton Digital Media (“Triton”) or other publicly available information. This information involves a number of assumptions and limitations. Although we believe that each source is reliable as of its respective date, we have not independently verified the accuracy or completeness of this information.*

*As used herein, “Pandora,” the “Company,” “we,” “our,” and similar terms refer to Pandora Media, Inc., unless the context indicates otherwise.*

*“Pandora” and other trademarks of ours appearing in this report are our property. This report may contain additional trade names and trademarks of other companies. We do not intend our use or display of other companies’ trade names or trademarks to imply an endorsement or sponsorship of us by such companies, or any relationship with any of these companies.*

### Overview

Pandora is the leader in internet radio in the United States, offering a personalized experience for each of our listeners wherever and whenever they want to listen to radio on a wide range of smartphones, tablets, computers and car audio systems, as well as a range of other internet-connected devices. The majority of our listener hours occur on mobile devices, with the majority of our revenue generated from advertising on these devices. We have pioneered a new form of radio—one that uses intrinsic qualities of music to initially create stations and then adapts playlists in real-time based on the individual feedback of each listener. We offer local and national advertisers an opportunity to deliver targeted messages to our listeners using a combination of audio, display and video advertisements.

For the three months ended March 31, 2015, we streamed 5.30 billion hours of radio, and as of March 31, 2015, we had 79.2 million active users during the prior 30-day period. Since we launched our free, advertising-supported radio service in 2005 our listeners have created over 8 billion stations.

At the core of our service is our set of proprietary personalization technologies, including the Music Genome Project and our playlist generating algorithms. The Music Genome Project is a database of over 1,000,000 uniquely analyzed songs from over 150,000 artists, spanning over 600 genres and sub-genres, which we develop one song at a time by evaluating and cataloging each song’s particular attributes. When a listener enters a single song, artist, comedian or genre to start a station, the Pandora service instantly generates a station that plays music or comedy we think that listener will enjoy. Based on listener reactions to the recordings we pick, we further tailor the station to match the listener’s preferences. Listeners also have the ability to add variety to and rename stations, which further allows for the personalization of our service.

We currently provide the Pandora service through two models:

- *Free Service.* Our free service is advertising-based and allows listeners access to our music and comedy catalogs and personalized playlist generating system for free across all of our delivery platforms.
- *Pandora One.* Pandora One is a paid subscription service without any advertising. Pandora One also enables listeners to have more daily skips, enjoy higher quality audio on supported devices and enjoy longer timeout-free listening.

A key element of our strategy is to make the Pandora service available everywhere that there is internet connectivity. To this end, we make the Pandora service available through a variety of distribution channels. In addition to streaming our service to computers, we have developed Pandora mobile device applications (“apps”) for smartphones such as iPhone, Android and the Windows Phone and for tablets including the iPad and Android tablets. We distribute those mobile apps free to listeners via app stores. In addition, Pandora is now integrated with more than 1,000 connected devices, including automobiles, automotive aftermarket devices and consumer electronic devices.

## **Recent Events**

In February 2015, we announced a United States licensing agreement to partner with Naxos of America, Inc. (“Naxos”), one of the world’s leading classical music labels representing a collection of classical music works. This partnership is designed to help classical labels and artists increase the audiences they reach. Participating labels and the artists they represent can also take advantage of the marketing capabilities of our connected platform, which capabilities include providing direct access to our metadata to help participating labels make data-driven business decisions. We do not expect this partnership to have a material effect on our financial condition or operating results.

## **Factors Affecting our Business Model**

As our mobile listenership increases, we face new challenges in optimizing our advertising products for delivery on mobile and other connected device platforms and monetizing inventory, or opportunities to sell advertisements, generated by listeners using these platforms. The mobile digital advertising industry is at an early stage of development, with lower overall spending levels than traditional online advertising markets, and faces technical challenges due to fragmented platforms and a lack of standard audience measurement protocols. As a greater share of our listener hours is consumed on mobile devices, our ability to monetize increased mobile streaming may not achieve the levels of monetization of streaming we have achieved on computers.

In addition, our monetization strategy includes increasing the number of ad campaigns for computer, mobile and other connected device platforms sold to local advertisers, placing us in more direct competition with broadcast radio for advertiser spending, especially for audio advertisements. By contrast, historically our advertisers have been predominantly national brands. To successfully monetize our growing listener hours, a key strategy is to convince a substantial base of local advertisers of the benefits of advertising on the Pandora service, including demonstrating the effectiveness and relevance of our advertising products, in particular audio advertising products, across the range of our delivery platforms.

Growth in our active users and distribution platforms has fueled a corresponding growth in listener hours. Our total number of listener hours is a key driver for both revenue generation opportunities and content acquisition costs, which are the largest component of our expenses.

- *Revenue.* Listener hours define the number of opportunities we have to sell advertisements, which we refer to as inventory. Our ability to attract advertisers depends in large part on our ability to offer sufficient inventory within desired demographics. In turn, our ability to generate revenue depends on the extent to which we are able to sell the inventory we have.
- *Cost of Revenue—Content Acquisition Costs.* The number of sound recordings we transmit to users of the Pandora service, as generally reflected by listener hours, drives substantially all of our content acquisition costs, although certain of our licensing agreements require us to pay fees for public performances of musical works based on a percentage of revenue.

We pay content acquisition costs, or royalties, to the copyright owners, or their agents, of each sound recording that we stream and to the copyright owners, or their agents, for the sound recordings that we perform, as well as the musical works

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embodied in each of those sound recordings, subject to certain exclusions. Royalties for sound recordings are negotiated with and paid to record labels, rights organizations or to SoundExchange, Inc. ("SoundExchange") and Merlin Networks B.V ("Merlin"). Royalties for musical works are most often negotiated with and paid to performing rights organizations ("PROs") such as ASCAP, BMI and SESAC, Inc. ("SESAC") or directly to publishing companies. Royalties are calculated based on the number of sound recordings streamed, revenue earned or other usage measures.

We stream spoken word comedy content pursuant to a federal statutory license, for which the underlying literary works are not currently entitled to eligibility for licensing by any PRO for the United States. Rather, pursuant to industry-wide custom and practice, this content is performed absent a specific license from any such PRO or the copyright owner of such content. However, we pay royalties to SoundExchange at rates negotiated between representatives of online music services and SoundExchange for the right to stream this spoken word comedy content.

Given the current royalty structures in effect through the end of 2015 with respect to the public performance of sound recordings in the United States, our content acquisition costs increase with each additional listener hour, regardless of whether we are able to generate more revenue. As such, our ability to achieve and sustain profitability and operating leverage depends on our ability to increase our revenue per hour of streaming through increased advertising revenue across all of our delivery platforms. We are presently involved in proceedings to set the royalties we pay to SoundExchange for streaming performances of musical works for the period from 2016 through 2020. Depending on the outcome of those proceedings, our royalty costs could change significantly. Please refer to our discussion of these matters in "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2014 for further information.

We expect to invest heavily in our operations to support anticipated future growth. One of our key objectives is furthering our industry leadership in internet radio, which we believe will strengthen our brand and help us to convince advertisers to allocate spending towards our ad products. As such, a central focus is adding, retaining and engaging listeners to build market share and grow our listener hours. As our business matures, we expect that our revenue growth will exceed the growth in our listener hours. However, we expect to incur annual net losses on a U.S. GAAP basis in the near term because our current strategy is to leverage improvements in gross profit by investing in broadening distribution channels, developing innovative and scalable advertising products, increasing utilization of advertising inventory and building our sales force. These investments are intended to drive further growth in our business through both increased listener hours and monetization of those hours, and as a result we are targeting gradual improvements in gross profit over time. Our planned reinvestment of the resulting incremental gross profit will continue to depress the growth of our bottom line profitability.

### Key Metrics

#### *Listener Hours*

We track listener hours because it is a key indicator of the growth of our business. We calculate listener hours based on the total bytes served for each track that is requested and served from our servers, as measured by our internal analytics systems, whether or not a listener listens to the entire track. To the extent that third-party measurements of listener hours are not calculated using a similar server-based approach, the third-party measurements may differ from our measurements.

The table below sets forth our total listener hours for the three months ended March 31, 2014 and 2015.

|                | Three months ended<br>March 31, |      |
|----------------|---------------------------------|------|
|                | 2014                            | 2015 |
|                | (in billions)                   |      |
| Listener hours | 4.80                            | 5.30 |

#### *Active Users*

We track the number of active users as an additional indicator of the breadth of audience we are reaching at a given time. We define active users as the number of distinct registered users, including subscribers that have requested audio from our servers within the trailing 30 days to the end of the final calendar month of the period. The number of active users may overstate the number of unique individuals who actively use our service within a month as one individual may register for, and use, multiple accounts.

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The table below sets forth our total active users as of March 31, 2014 and 2015.

|              | As of March 31, |      |
|--------------|-----------------|------|
|              | 2014            | 2015 |
|              | (in millions)   |      |
| Active users | 75.3            | 79.2 |

We define advertising-based active users (“ad-based active users”) as the number of users, excluding subscribers, that have requested audio from our servers within the trailing 30 days to the end of the final calendar month of the period. We define subscribers as the number of distinct users at the end of the period that have subscribed to our service. Inactive subscribers are included as they contribute towards revenue per thousand listener hours (“RPMs”), which are described in further detail below.

The table below sets forth our users on an advertising and subscription basis as of March 31, 2014 and 2015.

| User type             | As of March 31,     |      |
|-----------------------|---------------------|------|
|                       | 2014                | 2015 |
|                       | Users (in millions) |      |
| Ad-based active users | 72.4                | 76.1 |
| Subscribers*          | 3.4                 | 3.8  |
| Total                 | 75.8                | 79.9 |

\* Includes subscribers that have not used our service within the trailing 30 days to the end of the final calendar month of the period.

The table below sets forth our listener hours on an advertising and subscription basis for the three months ended March 31, 2014 and 2015.

| User type             | Three months ended March 31, |      |
|-----------------------|------------------------------|------|
|                       | 2014                         | 2015 |
|                       | Listener hours (in billions) |      |
| Ad-based active users | 4.21                         | 4.68 |
| Subscribers           | 0.59                         | 0.62 |
| Total                 | 4.80                         | 5.30 |

#### *Advertising Revenue per Thousand Listener Hours (“ad RPMs”)*

We track ad RPMs for our free, advertising-supported service because it is a key indicator of our ability to monetize advertising inventory created by our listener hours. We focus on ad RPMs across all of our delivery platforms. We believe ad RPMs to be the central top-line indicator for evaluating the results of our monetization efforts. Ad RPMs are calculated by dividing advertising revenue by the number of thousands of listener hours of our advertising-based service.

#### *Subscription and Other Revenue per Thousand Listener Hours (“subscription RPMs”)*

We track subscription RPMs because it is a key indicator of the performance of our subscription service. We focus on subscription RPMs across all of our delivery platforms. Subscription RPMs are calculated by dividing subscription and other revenue by the number of thousands of listener hours of our subscription service.

#### *Total Revenue per Thousand Listener Hours (“total RPMs”)*

We track total RPMs for our service, which includes ad and subscription RPMs, because it is a key indicator of our ability to monetize our listener hours. Total RPMs compare advertising and subscription and other revenue in a given period to total listener hours in the period. We calculate total RPMs by dividing the total revenue by the number of thousands of listener hours.

#### *Licensing Costs per Thousand Listener Hours (“LPMs”)*

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We track LPMs and analyze them in combination with our analysis of RPMs as they provide a key indicator of our profitability. LPMs are relatively fixed licensing costs with scheduled annual rate increases that drive period-over-period changes in LPMs. As such, the margin on our business varies principally with variances in ad RPMs and subscription RPMs.

*Estimated RPMs and LPMs by Platform*

We also provide estimates of disaggregated ad RPMs, subscription RPMs, total RPMs and related LPMs for our computer platform as well as our mobile and other connected devices platforms, which we calculate by dividing the estimated revenue and costs generated through the respective platforms by the number of thousands of listener hours of our services delivered through such platforms. While we believe that such disaggregated data provides directional insight for evaluating our efforts to monetize our service, we do not validate such disaggregated data to the level of financial statement reporting. Such data should be seen as indicative only and as management's best estimate.

Period-to-period results should not be regarded as precise nor can they be relied upon as indicative of results for future periods. In addition, as our business matures and in response to technological evolutions, we anticipate that the relevant indicators we monitor for evaluating our business may change.

The table below sets forth our RPMs and LPMs, including total, computer and mobile and other connected devices, on an ad, subscription and total basis for the three months ended March 31, 2014 and 2015.

|  | Three months ended March 31, |          |          |          |
|--|------------------------------|----------|----------|----------|
|  | 2014                         |          | 2015     |          |
|  | RPM                          | LPM*     | RPM      | LPM*     |
| <b>Advertising</b>                       |                              |          |          |          |
| Computer                                 | \$ 52.75                     | \$ 21.17 | \$ 58.04 | \$ 19.66 |
| Mobile and other connected devices       | 29.46                        | 20.02    | 34.92    | 22.07    |
| Total advertising                        | \$ 33.40                     | \$ 20.22 | \$ 38.30 | \$ 21.72 |
| <b>Subscription</b>                      |                              |          |          |          |
| Computer                                 | \$ 61.92                     | \$ 33.95 | \$ 70.13 | \$ 36.43 |
| Mobile and other connected devices       | 102.53                       | 41.54    | 85.56    | 39.59    |
| Total subscription                       | \$ 91.59                     | \$ 39.49 | \$ 82.07 | \$ 38.88 |
| <b>Total</b>                             |                              |          |          |          |
| Total computer                           | \$ 54.42                     | \$ 23.49 | \$ 60.13 | \$ 22.57 |
| Total mobile and other connected devices | 37.43                        | 22.37    | 40.47    | 23.99    |
| Total                                    | \$ 40.51                     | \$ 22.57 | \$ 43.53 | \$ 23.77 |

\* Under the Pureplay Settlement agreement, we pay per-performance rates for the streaming of sound recordings for our Pandora One subscription service that are higher than the per-performance rates for our free, advertising-supported service.

*Total ad RPMs*

For the three months ended March 31, 2015 compared to 2014, total ad RPMs increased primarily due to an increase in ad RPMs on the mobile and other connected devices platform. Ad RPMs on the mobile and other connected devices platform increased as advertising revenue growth outpaced the growth in advertising listener hours as a result of an increase in the average price per ad and an increase in the number of ads sold.

*Total subscription RPMs*

For the three months ended March 31, 2015 compared to 2014, total subscription RPMs decreased as a result of the one-time recognition of the accumulation of deferred revenue related to certain subscriptions purchased through mobile app stores of \$14.2 million in the three months ended March 31, 2014. This was offset by an approximate 20% increase in the average price per subscription as a result of the change in the Pandora One pricing structure and an approximate 10% increase in the number of subscribers.

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### *Total ad LPMs*

Total ad LPMs increased in the three months ended March 31, 2015 compared to 2014, primarily due to an increase in ad LPMs on the mobile and other connected devices platform. Ad LPMs on the mobile and other connected devices platform increased as a result of scheduled rate increases for sound recording royalties paid to SoundExchange.

### *Total subscription LPMs*

Total subscription LPMs decreased in the three months ended March 31, 2015 compared to 2014, primarily due to a decrease in subscription LPMs on the mobile and other connected devices platform. Subscription LPMs on the mobile and other connected devices platform decreased as the growth in mobile subscription listener hours outpaced the growth in mobile subscription content acquisition costs, partially due to a one-time royalty payment in the three months ended March 31, 2014, offset by scheduled rate increases for sound recording royalties paid to SoundExchange.

**Basis of Presentation and Results of Operations**

The following table presents our results of operations for the periods indicated as a percentage of total revenue. The period-to-period comparisons of results are not necessarily indicative of results for future periods.

|   | Three months ended<br>March 31, |       |
|---|---------------------------------|-------|
|   | 2014                            | 2015  |
| Revenue                                     |                                 |       |
| Advertising                                 | 72 %                            | 77 %  |
| Subscription and other                      | 28                              | 23    |
| Total revenue (2)                           | 100                             | 100   |
| Cost of revenue                             |                                 |       |
| Cost of revenue — Content acquisition costs | 56                              | 55    |
| Cost of revenue — Other(1)                  | 8                               | 7     |
| Total cost of revenue (2)                   | 63                              | 62    |
| Gross profit (2)                            | 37                              | 38    |
| Operating expenses                          |                                 |       |
| Product development(1)                      | 6                               | 7     |
| Sales and marketing(1)                      | 32                              | 37    |
| General and administrative(1)               | 14                              | 16    |
| Total operating expenses (2)                | 51                              | 59    |
| Loss from operations (2)                    | (15)                            | (21)  |
| Other income, net                           | —                               | —     |
| Loss before provision for income taxes (2)  | (15)                            | (21)  |
| Provision for income taxes                  | —                               | —     |
| Net Loss (2)                                | (15)%                           | (21)% |

(1) Includes stock-based compensation as follows:

|                            |      |      |
|----------------------------|------|------|
| Cost of revenue - Other    | 0.5% | 0.5% |
| Product development        | 1.8  | 2.0  |
| Sales and marketing        | 4.3  | 4.9  |
| General and administrative | 2.4  | 2.6  |

(2) Note: Amounts may not recalculate due to rounding



*Revenue*

|                        | <b>Three months ended<br/>March 31,</b> |                   |                  |
|------------------------|---|-------------------|------------------|
|                        | <b>2014</b>                             | <b>2015</b>       | <b>\$ Change</b> |
|                        | <b>(in thousands)</b>                   |                   |                  |
| Revenue                |   |                   |                  |
| Advertising            | \$ 140,634                              | \$ 178,739        | \$ 38,105        |
| Subscription and other | 53,681                                  | 52,025            | (1,656)          |
| Total revenue          | <u>\$ 194,315</u>                       | <u>\$ 230,764</u> | <u>\$ 36,449</u> |

*Advertising revenue*

We generate advertising revenue primarily from audio, display and video advertising, which is typically sold on a cost-per-thousand impressions, or CPM, basis. Advertising campaigns typically range from one to twelve months, and advertisers generally pay us based on the number of delivered impressions or the satisfaction of other criteria, such as click-throughs. We also have arrangements with advertising agencies under which these agencies sell advertising inventory on our service directly to advertisers. We report revenue under these arrangements net of amounts due to agencies. For the three months ended March 31, 2014 and 2015, advertising revenue accounted for 72% and 77%, of our total revenue. We expect that advertising will comprise a substantial majority of our revenue for the foreseeable future.

For the three months ended March 31, 2015 compared to 2014, advertising revenue increased \$38.1 million or 27%, primarily due to an approximate 15% increase in the average price per ad due in part to our increase in relative volume of local ad sales and our focus on monetizing mobile inventory and an approximate 10% increase in the number of ads sold, as a result of an increase in advertising listener hours.

*Subscription and other revenue*

Subscription and other revenue is generated primarily through the sale of Pandora One, a premium version of the Pandora service, which currently includes advertisement-free access and higher audio quality on the devices that support it. Subscription revenue is recognized on a straight-line basis over the duration of the subscription period. For the three months ended March 31, 2014 and 2015, subscription and other revenue accounted for 28% and 23% of our total revenue.

For the three months ended March 31, 2015 compared to 2014, subscription revenue decreased \$1.7 million or 3%, primarily as a result of the one-time recognition of the accumulation of deferred revenue related to certain subscriptions purchased through mobile app stores of \$14.2 million in the three months ended March 31, 2014. Refer to "Deferred Revenue" below for further details regarding these mobile subscriptions. This was offset by an approximate 20% increase in the average price per subscription as a result of the change in the Pandora One pricing structure and an approximate 10% increase in the number of subscribers.

*Deferred revenue*

Our deferred revenue consists principally of both prepaid but unrecognized subscription revenue and advertising fees received or billed in advance of the delivery or completion of the delivery of services. Deferred revenue is recognized as revenue when the services are provided and all other revenue recognition criteria have been met.

In addition, subscription revenue derived from sales through certain mobile devices may be subject to refund or cancellation terms which may affect the timing or amount of the subscription revenue recognition. When refund rights exist, we recognize revenue when services have been provided and the rights lapse or when we have developed sufficient transaction history to estimate a return reserve.

We were required to defer revenue for certain subscriptions purchased through mobile app stores that contained refund rights until the refund rights lapsed or until we developed sufficient operating history to estimate a return reserve. As of December 31, 2013, we had deferred all revenue related to these mobile subscriptions subject to refund rights totaling approximately \$14.2 million, as we did not have sufficient transaction history to estimate a return reserve. Beginning in January 2014, we had sufficient transaction history that enabled us to estimate future returns. Accordingly, in January 2014, we began recording revenue related to these mobile subscriptions net of estimated returns. This resulted in a one-time increase in

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subscription revenue in the three months ended March 31, 2014 of approximately \$14.2 million, as the previously deferred revenue was recognized. As of March 31, 2015, the deferred revenue related to the return reserve was not significant.

Effective in March 2014, we implemented a change in the pricing structure for Pandora One under which the \$36 annual subscription option was eliminated. In addition, effective in May 2014, the monthly pricing option for Pandora One was increased to \$4.99 per-month for new subscribers. Existing monthly subscribers who did not lapse maintained the \$3.99 per-month pricing structure, and existing annual subscribers who did not lapse were migrated to the \$3.99 per-month monthly pricing structure. Effective in December 2014, we reinstated the annual subscription option at \$54.89 or \$47.88 per year, depending on whether the user was a previous annual subscriber. The deferred revenue in our condensed consolidated balance sheet as of March 31, 2015 increased by \$12.3 million as compared to our consolidated balance sheet as of December 31, 2014, primarily as a result of an increase in annual subscribers in the three months ended March 31, 2015.

### *Costs and Expenses*

Cost of revenue consists of cost of revenue—content acquisition costs and cost of revenue—other. Our operating expenses consist of product development, sales and marketing and general and administrative costs. Cost of revenue—content acquisition costs are the most significant component of our costs and expenses, followed by employee-related costs, which include stock-based compensation expenses. We expect to continue to hire additional employees in order to support our anticipated growth and our product development initiatives. In any particular period, the timing of additional hires could materially affect our cost of revenue and operating expenses, both in absolute dollars and as a percentage of revenue. We anticipate that our costs and expenses will increase in the future.

#### *Cost of revenue - Content acquisition costs*

|   | Three months ended<br>March 31, |            |           |
|---|---------------------------------|------------|-----------|
|   | 2014                            | 2015       | \$ Change |
|   | (in thousands)                  |            |           |
| Cost of revenue - Content acquisition costs | \$ 108,275                      | \$ 126,023 | \$ 17,748 |

#### *Content acquisition costs as a percentage of advertising revenue by platform*

|                                    | Three months ended<br>March 31, |      |
|------------------------------------|---------------------------------|------|
|                                    | 2014                            | 2015 |
| Computer                           | 39%                             | 39%  |
| Mobile and other connected devices | 67%                             | 62%  |

Cost of revenue—Content acquisition costs principally consist of royalties paid for streaming music or other content to our listeners. Royalties are currently calculated using negotiated rates documented in agreements. The majority of our royalties are payable based on a fee per public performance of a sound recording, while in other cases our royalties are payable based on a percentage of our revenue or a formula that involves a combination of per performance and revenue metrics. For royalty arrangements under negotiation, we accrue for estimated royalties based on the available facts and circumstances and adjust these estimates as more information becomes available. The results of any finalized negotiation may be materially different from our estimates.

We estimate our advertising-based content acquisition costs attributable to specific platforms by allocating costs from royalties payable based on a fee per track to the platform for which the track is served and by allocating costs from royalties based on a percentage of our revenue in accordance with the overall percentage of our revenue estimated to be attributable to such platforms. While we believe that comparing disaggregated content acquisition costs and revenues across our delivery platforms may provide directional insight for evaluating our efforts to monetize the rapid adoption of our service on mobile and other connected devices, we do not validate such disaggregated metrics to the level of financial statement reporting. We continue to refine our systems and methodologies used to categorize such metrics across our delivery platforms and the period-to-period comparisons of results are not necessarily indicative of results for future periods.

For the three months ended March 31, 2015 compared to 2014, content acquisition costs increased \$17.7 million or 16%, primarily due to an approximate 10% increase in listener hours and scheduled royalty rate increases of 8%. Content acquisition

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costs as a percentage of total revenue decreased from 56% to 55%, primarily due to an increase in advertising sales and the effect of measures we have adopted to manage the growth of mobile content acquisition costs while minimizing adverse effects on the listener experience, partially offset by scheduled rate increases. Estimated content acquisition costs as a percentage of the advertising revenue attributable to our computer platform were 39% in both of the three months ended March 31, 2014 and 2015, primarily due to increases in advertising sales on that platform that were offset by scheduled rate increases. Estimated content acquisition costs as a percentage of the advertising revenue attributable to our mobile and other connected devices platform decreased from 67% to 62%, primarily due to an increase in advertising sales on those platforms and the effect of measures we have adopted to manage the growth of mobile content acquisition costs while minimizing adverse effects on the listener experience, partially offset by scheduled rate increases.

*Cost of revenue—Other*

|                         | <b>Three months ended<br/>March 31,</b> |             |                  |
|-------------------------|---|-------------|------------------|
|                         | <b>2014</b>                             | <b>2015</b> | <b>\$ Change</b> |
|                         | (in thousands)                          |             |                  |
| Cost of revenue — Other | \$ 14,979                               | \$ 16,233   | \$ 1,254         |

Cost of revenue—Other consists primarily of hosting and ad serving costs, employee-related costs and other costs of ad sales. Hosting and ad serving costs consist of content streaming, maintaining our internet radio service and creating and serving advertisements through third-party ad servers. We make payments to third-party ad servers for the period the advertising impressions are delivered or click-through actions occur, and accordingly, we record this as a cost of revenue in the related period. Employee-related costs include salaries and benefits associated with supporting hosting and ad serving functions. Other costs of ad sales include costs related to music events that are sold as part of advertising arrangements.

For the three months ended March 31, 2015 compared to 2014, cost of revenue - other increased \$1.3 million or 8%, primarily due to a \$1.6 million increase in hosting and infrastructure costs driven by an increase in listener hours and a \$1.3 million increase in employee-related costs driven by an approximate 45% increase in headcount, offset by a \$1.6 million decrease in costs related to music events that are sold as part of advertising arrangements.

*Gross profit*

|                       | <b>Three months ended<br/>March 31,</b> |             |                  |
|-----------------------|---|-------------|------------------|
|                       | <b>2014</b>                             | <b>2015</b> | <b>\$ Change</b> |
|                       | (in thousands)                          |             |                  |
| Gross profit          |   |             |                  |
| Total revenue         | \$ 194,315                              | \$ 230,764  | \$ 36,449        |
| Total cost of revenue | 123,254                                 | 142,256     | 19,002           |
| Gross profit          | \$ 71,061                               | \$ 88,508   | \$ 17,447        |
| Gross margin          | 37%                                     | 38%         |                  |

For the three months ended March 31, 2015 compared to 2014, gross profit increased by \$17.4 million or 25%, primarily due to an increase in advertising revenue as a result of an increase in the average price per ad and an increase in the number of ads sold. Gross margin increased from 37% to 38%, as the growth in revenue outpaced the growth in content acquisition costs primarily due to an increase in advertising revenue and the effect of measures we have adopted to manage the growth of mobile content acquisition costs while minimizing adverse effects on the listener experience, such as adjusting the number of times users can skip songs during a given listening session, as well as optimizing time-based thresholds whereby music will stop playing after a certain length of user inactivity with the service. This was offset by a decrease in subscription revenue as a result of the one-time recognition of the accumulation of deferred revenue related to certain subscriptions purchased through mobile app stores of \$14.2 million in the three months ended March 31, 2014.

*Product development*

|                     | Three months ended<br>March 31, |           |           |
|---------------------|---------------------------------|-----------|-----------|
|                     | 2014                            | 2015      | \$ Change |
|                     | (in thousands)                  |           |           |
| Product development | \$ 11,831                       | \$ 15,875 | \$ 4,044  |

Product development consists primarily of employee-related costs, including salaries and benefits related to employees in software engineering, music analysis and product management departments, facilities-related expenses, information technology and costs associated with supporting consumer connected-device manufacturers in implementing our service in their products. We incur product development expenses primarily for improvements to our website and the Pandora app, development of new advertising products and development and enhancement of our personalized station generating system. We have generally expensed product development as incurred. Certain website development and internal use software development costs are capitalized when specific criteria are met. In such cases, the capitalized amounts are amortized over the useful life of the related application once the application is placed in service. We intend to continue making significant investments in developing new products and enhancing the functionality of our existing products.

For the three months ended March 31, 2015 compared to 2014, product development expenses increased \$4.0 million or 34%, primarily due to a \$3.9 million increase in employee-related costs, which were driven by an approximate 45% increase in headcount.

*Sales and marketing*

|                     | Three months ended<br>March 31, |           |           |
|---------------------|---------------------------------|-----------|-----------|
|                     | 2014                            | 2015      | \$ Change |
|                     | (in thousands)                  |           |           |
| Sales and marketing | \$ 61,864                       | \$ 84,274 | \$ 22,410 |

Sales and marketing consists primarily of employee-related costs, including salaries, commissions and benefits related to employees in sales, sales support, marketing and music industry group departments. In addition, sales and marketing expenses include transaction processing commissions on subscription purchases through mobile app stores, external sales and marketing expenses such as brand marketing, direct response and search engine marketing costs, public relations expenses, costs related to music events, agency platform and media measurement expenses, facilities-related expenses and infrastructure costs. We expect sales and marketing expenses to increase as we hire additional personnel to build out our sales and sales support teams, particularly as we continue to build out our local market sales team. While we have historically relied on the success of viral marketing to expand consumer awareness of our service, in 2014 we began to launch marketing campaigns to increase consumer awareness and expand our listener base. We anticipate that we will continue to utilize these types of marketing campaigns in the future.

For the three months ended March 31, 2015 compared to 2014, sales and marketing expenses increased \$22.4 million or 36%, primarily due to a \$12.0 million increase in employee-related costs, which was driven by an approximate 30% increase in headcount, a \$5.6 million increase in brand marketing, direct response and search engine marketing costs, a \$3.0 million increase in transaction processing commissions on subscription purchases through mobile app stores and a \$1.2 million increase in costs related to music events.

*General and administrative*

|                            | Three months ended<br>March 31, |           |           |
|----------------------------|---------------------------------|-----------|-----------|
|                            | 2014                            | 2015      | \$ Change |
|                            | (in thousands)                  |           |           |
| General and administrative | \$ 26,361                       | \$ 36,754 | \$ 10,393 |

General and administrative consists primarily of employee-related costs, including salaries and benefits for finance, accounting, legal, internal information technology and other administrative personnel. In addition, general and administrative expenses include professional services costs for outside legal and accounting services, facilities-related expenses, infrastructure

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costs and credit card fees. We expect general and administrative expenses to increase in future periods as we continue to invest in corporate infrastructure, including adding personnel and systems to our administrative functions.

For the three months ended March 31, 2015 compared to 2014, general and administrative expenses increased \$10.4 million or 39%, primarily due to a \$4.0 million increase in professional service costs related to royalty-related legal matters and a \$3.8 million increase in employee-related costs, which was driven by an approximate 35% increase in headcount.

### *Provision for (benefit from) income taxes*

We have historically been subject to income taxes only in the United States. As we expand our operations outside the United States, we become subject to taxation based on the foreign statutory rates and our effective tax rate could fluctuate accordingly.

Our provision for (benefit from) income taxes is computed using the asset and liability method, under which deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted statutory income tax rates in effect for the year in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce net deferred tax assets to the amount expected to be realized.

### *Off-Balance Sheet Arrangements*

Our liquidity is not dependent on the use of off-balance sheet financing arrangements and as of March 31, 2015 we had no such arrangements.

### *Contractual Obligations*

There has been no material change in our contractual obligations other than in the ordinary course of business since the year ended December 31, 2014.

## **Quarterly Trends**

Our operating results fluctuate from quarter to quarter as a result of a variety of factors. We expect our operating results to continue to fluctuate in future quarters.

Our results reflect the effects of seasonal trends in listener and advertising behavior. We expect to experience both higher advertising sales due to greater advertiser demand during the holiday season and increased usage due to the popularity of holiday music during the last three months of each calendar year. In addition, we expect to experience lower advertising sales in the first three months of each calendar year due to reduced advertiser demand and increased usage due to increased use of media-streaming devices received as gifts during the holiday season. We believe these seasonal trends have affected, and will continue to affect our operating results, particularly as increases in content acquisition costs from increased usage are not offset by increases in advertising sales in the first calendar quarter.

In addition, expenditures by advertisers tend to be cyclical and discretionary in nature, reflecting overall economic conditions, the economic prospects of specific advertisers or industries, budgeting constraints and buying patterns and a variety of other factors, many of which are outside our control. As a result of these and other factors, the results of any prior quarterly or annual periods should not be relied upon as indications of our future operating performance.

## **Liquidity and Capital Resources**

As of March 31, 2015, we had cash, cash equivalents and investments totaling \$481.3 million, which primarily consisted of cash and money market funds held at major financial institutions, commercial paper and investment-grade corporate debt securities.

Our principal uses of cash during the three months ended March 31, 2015 were funding our operations, as described below, and capital expenditures.

### *Sources of Funds*

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We believe, based on our current operating plan, that our existing cash and cash equivalents and available borrowings under our credit facility will be sufficient to meet our anticipated cash needs for at least the next twelve months.

From time to time, we may explore additional financing sources and means to lower our cost of capital, which could include equity, equity-linked and debt financing. In addition, in connection with any future acquisitions, we may require additional funding which may be provided in the form of additional debt, equity or equity-linked financing or a combination thereof. There can be no assurance that any additional financing will be available to us on acceptable terms.

### *Our Indebtedness*

We are party to a \$60.0 million credit facility with a syndicate of financial institutions, which expires on September 12, 2018. As of March 31, 2015, we had no borrowings outstanding, \$1.1 million in letters of credit outstanding and \$58.9 million of available borrowing capacity under the credit facility.

### *Capital Expenditures*

Consistent with previous periods, future capital expenditures will primarily focus on acquiring additional hosting and general corporate infrastructure. Our access to capital is adequate to meet our anticipated capital expenditures for our current plans.

### *Historical Trends*

The following table summarizes our cash flow data for the three months ended March 31, 2014 and 2015.

|   | Three months ended |           |
|---|--------------------|-----------|
|   | March 31,          |           |
|   | 2014               | 2015      |
|   | (in thousands)     |           |
|   | (unaudited)        |           |
| Net cash provided by (used in) operating activities | \$ (2,122)         | \$ 26,982 |
| Net cash provided by (used in) investing activities | (93,466)           | 16,408    |
| Net cash provided by financing activities           | 10,614             | 1,825     |

### *Operating activities*

In the three months ended March 31, 2015, net cash provided by operating activities was \$27.0 million and primarily consisted of our net loss of \$48.3 million, which was partially offset by non-cash charges of \$28.2 million, primarily related to \$23.2 million in stock-based compensation charges. Net cash provided by operating activities also included \$29.2 million in cash from collections of accounts receivable and a \$12.3 million increase in deferred revenue primarily due to the reinstatement of the annual subscription option in December 2014. Net cash provided by operating activities increased \$29.1 million from the three months ended March 31, 2014, primarily due to a decrease in accounts receivable of \$13.6 million as a result of cash from collections of accounts receivable and a \$12.3 million increase in deferred revenue primarily due to the reinstatement of the annual subscription option in December 2014.

### *Investing activities*

In the three months ended March 31, 2015, net cash provided by investing activities was \$16.4 million, primarily due to \$78.5 million of proceeds from maturities of investments, offset by \$56.8 million of purchases of investments and \$5.9 million of capital expenditures for leasehold improvements and server equipment.

### *Financing activities*

In the three months ended March 31, 2015, net cash provided by financing activities was \$1.8 million, primarily consisting of \$1.6 million in proceeds from the ESPP.

## **Critical Accounting Policies and Estimates**

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Our discussion and analysis of our financial condition and results of operations is based upon our condensed consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these condensed consolidated financial statements requires us to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and the related disclosure of contingent assets and liabilities. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances. Our estimates form the basis for our judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

An accounting policy is considered to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or changes in the accounting estimate that are reasonably likely to occur, could materially impact the condensed consolidated financial statements. We believe that our critical accounting policies reflect the more significant estimates and assumptions used in the preparation of the condensed consolidated financial statements.

Other than those discussed below, there have been no material changes to our critical accounting policies and estimates as compared to those described in our Annual Report on Form 10-K for the year ended December 31, 2014 under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Estimates.”

### *Stock-Based Compensation — Market Stock Units (“MSUs”)*

We implemented a market stock unit program in March 2015 for certain key executives. Specifically, MSUs measure Pandora’s total stockholder return (“TSR”) performance against that of the Russell 2000 Index across three performance periods.

We have determined the grant-date fair value of the MSUs using a Monte Carlo simulation performed by a third-party valuation firm. The Monte Carlo simulation model utilizes multiple input variables to estimate the probability that market conditions will be achieved. These variables include our expected stock price volatility over the expected term of the award, actual and projected employee stock option exercise behaviors and the risk-free interest rate for the expected term of the award. The variables used in these models are reviewed on an annual basis and adjusted, as needed. We recognize stock-based compensation for the MSUs over the requisite service period using the accelerated attribution method.

**Item 3. Quantitative and Qualitative Disclosure About Market Risk**

*Interest Rate Fluctuation Risk*

There have been no material changes in our primary market risk exposures or how those exposures are managed from the information disclosed in Part II, Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2014. For further discussion of quantitative and qualitative disclosures about market risk, reference is made to our Annual Report on Form 10-K.



## **Item 4. Controls and Procedures**

### **Evaluation of Disclosure Controls and Procedures**

We maintain “disclosure controls and procedures,” as such term is defined in Rule 13a-15(e) under the Exchange Act, that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. Based on their evaluation at the end of the period covered by this Quarterly Report on Form 10-Q, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of March 31, 2015.

### **Changes in Internal Control over Financial Reporting**

There has been no change in our internal control over financial reporting during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

The material set forth in Note 5 in the Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q is incorporated herein by reference.

### **Item 1A. Risk Factors**

*Investing in our common stock involves a high degree of risk. Before deciding to invest in our common stock, you should carefully consider each of the risk factors described in “Part I - Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2014 and all information set forth in this Quarterly Report on Form 10-Q. Those risks and the risks described in this Quarterly Report on Form 10-Q, including in the section entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” could materially harm our business, financial condition, operating results, cash flow and prospects. If that occurs, the trading price of our common stock could decline, and you may lose all or part of your investment.*

There have been no material changes to the Risk Factors described under “Part I - Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2014.

**Item 6. Exhibits**

| <b>Exhibit No.</b> | <b>Exhibit Description</b>   | <b>Incorporated by Reference</b> |                 |                |                    |                 | <b>Filed Herewith</b> |
|--------------------|--|----------------------------------|-----------------|----------------|--------------------|-----------------|-----------------------|
|                    |  | <b>Form</b>                      | <b>File No.</b> | <b>Exhibit</b> | <b>Filing Date</b> | <b>Filed By</b> |                       |
| 10.17D             | 2015 Corporate Incentive Plan  |                                  |                 |                |                    |                 | X                     |
| 10.25              | Offer Letter with Sara Clemens, dated January 22, 2014   |                                  |                 |                |                    |                 | X                     |
| 10.26              | Offer Letter with Stephen Bené, dated October 14, 2014   |                                  |                 |                |                    |                 | X                     |
| 10.27              | Offer Letter with Christopher Phillips, dated October 20, 2014   |                                  |                 |                |                    |                 | X                     |
| 10.28              | Form of MSU Grant Notice and Award Agreement   |                                  |                 |                |                    |                 | X                     |
| 31.01              | Certification of the Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act   |                                  |                 |                |                    |                 | X                     |
| 31.02              | Certification of the Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act   |                                  |                 |                |                    |                 | X                     |
| 32.01              | Certification of the Principal Executive Officer and Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act   |                                  |                 |                |                    |                 | X                     |
| 101                | Interactive Data Files Pursuant to Rule 405 of Regulation S-T:<br>(i) Condensed Balance Sheets as of March 31, 2015 and December 31, 2014, (ii) Condensed Statements of Operations for the three months ended March 31, 2015 and 2014, (iii) Condensed Statements of Comprehensive Loss for the three months ended March 31, 2015 and 2014, (iv) Condensed Statements of Cash Flows for the three months ended March 31, 2015 and 2014 and (v) Notes to Condensed Financial Statements |                                  |                 |                |                    |                 | X                     |

† Indicates management contract or compensatory plan.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, Pandora Media, Inc. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PANDORA MEDIA, INC.

Date: April 27, 2015

By: /s/ Michael S. Herring  
Michael S. Herring  
Executive Vice President and Chief Financial Officer  
(Duly Authorized Officer and Principal Financial and Accounting Officer)

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## Section 2: EX-10.25 (EXHIBIT 10.25)

# PANDORA®

January 20, 2014

Sara Clemens

Re: Employment Offer

Dear Sara:

On behalf of Pandora Media, Inc. (the "Company"), we are pleased to offer you the position of Chief Strategy Officer. This letter agreement sets forth the terms and conditions of your employment with the Company ("Agreement") if you accept and commence such employment. Please understand that this offer, if not accepted, will expire on **Friday January 24, 2014**.

**1. Responsibilities; Duties.** You are expected to begin work on **February 24, 2014** (the "Start Date"). You are required to faithfully and conscientiously perform your assigned duties and to diligently observe all your obligations to the Company. You agree to devote your full business time and efforts, energy and skill to your employment at the Company, and you agree to apply all your skill and experience to the performance of your duties and advancing Company's interests. During your employment with the Company, you may not perform services as an employee or consultant of any other competitive organization and you will not assist any other person or organization in competing with the Company or in preparing to engage in competition with the business or proposed business of the Company. Any other outside relationships you engage in should be made known to the Company's General Counsel and CEO in writing. You shall comply with and be bound by Company's operating policies, procedures, and practices from time to time in effect during your employment.

**2. Compensation.** In consideration for rendering services to the Company during the term of your employment and fulfilling your obligations under this Agreement, you will be eligible to receive the benefits set forth in this Agreement.

a. **Base Salary.** In this exempt full-time position, you will earn an annual base salary of \$350,000 (prorated for any partial pay period that occurs during the term of your employment), subject to applicable tax withholdings. Your salary will be payable pursuant to the Company's regular payroll policy.

b. **Business Expenses.** The Company shall, upon submission and approval of written statements and bills in accordance with the then regular procedures of the Company, pay or reimburse you for any and all necessary, customary and usual expenses incurred by you while traveling for or on behalf of the Company, and any and all other necessary, customary or usual expenses (including entertainment) incurred by you for or on behalf of the Company in the

normal course of business, as determined to be appropriate by the Company. It is your responsibility to review and comply with the Company's business expense reimbursement policies.

c. Performance Bonus. Your target bonus under the Company's bonus plan will be 50% of your base salary. This bonus will not be prorated as long as you start before March 31, 2014. The actual bonus amount paid will be determined in the sole and absolute discretion of the Company's



Compensation Committee. Any bonus eligibility for future years will be subject to the terms and conditions of any bonus or incentive compensation plan that the Company adopts at a later time. Nothing hereunder shall be construed or interpreted as a guarantee for you to receive any bonuses or incentive compensation.

**3. Employee Benefits.** You will be eligible to participate in any employee benefit plans or programs maintained or established by the Company including, but not limited to, paid time off, group health benefits, life insurance, dental plan, and other benefits made available generally to employees, subject to eligibility requirements and the applicable terms and conditions of the plan or program in question and the determination of any committee administering such plan or program. To the extent approved by the Board of Directors or its Compensation Committee from time to time, you will be eligible for any severance or change in control policy of the Company that is then applicable to similarly situated U.S. employees. You will be asked to sign an Indemnification Agreement with the Company and be subject to the terms and conditions thereof. You will be an “Eligible Officer” under the Company’s Executive Severance and Change in Control Policy (“Severance Policy”) and be subject to the terms and conditions thereof, which include, but are not limited to, the severance provisions set forth below:

a. Non-change in control severance. If the Eligible Officer is terminated by reason of an Involuntary Termination (as defined under the Severance Policy) the Eligible Officer is entitled, subject to the terms of the Severance Policy, to receive 6 months of salary, health benefits and accelerated vesting of equity awards, plus a prorated annual bonus for the year of termination and outplacement services.

b. Change in control severance. If Eligible Officer is terminated by reason of a Change of Control Termination (as defined under the Severance Policy) the Eligible Officer is entitled, subject to the terms of the Severance Policy, to receive 12 months of salary and health benefits, 100% accelerated vesting of equity awards and the opportunity to extend the exercise period of certain options for up to 12 months following termination, plus a prorated annual bonus for the year of termination and outplacement services

**4. Stock Option.** In connection with the commencement of your employment, the Company will recommend that the Board of Directors grant you the following equity grants subject to the terms of the Company's equity plan:

a. Stock options (the “Options”) to purchase 110,000 shares of the Company's Common Stock with an exercise price equal to the fair market value on the date of the grant. The Option shares will vest and become exercisable at the rate of 25% of the total number of shares on the twelve (12) month anniversary of your Vesting Commencement Date (as defined in the Stock Option Agreement to be executed between you and the Company, which date will be your Start Date, as defined below) and 1/48<sup>th</sup> of the total number of shares each month thereafter on the monthly anniversary of the Vesting Commencement Date. Vesting will, of course, depend on your continued employment with the Company.

b. Restricted Stock Units (the “RSUs”) representing the right to receive 60,000 shares of the Company's common stock which will vest in four equal annual installments on the twelve (12) month anniversary of your Vesting Commencement Date (which will be determined under the



Company's standard practice for RSUs, which is dependent on your start date); *provided* that any vesting will be subject to your continued service with the Company on each such vesting date.

**6. At-Will Employment.** Your employment with the Company will be on an "at will" basis, meaning that either you or the Company may terminate your employment at any time without notice and for any reason or no reason, without further obligation or liability. Further, your continued employment as well as your participation in any benefit programs does not assure you of continuing employment with the Company. The Company also reserves the right to modify or amend the terms of your employment, compensation and benefit plans at any time for any reason. This policy of at-will employment is the entire agreement as to the duration of your employment and may only be modified in an express written agreement signed by the Chief Executive Officer of the Company.

**7. Pre-employment Conditions.**

a. **Confidentiality Agreement.** Your acceptance of this offer and commencement of employment with the Company is contingent upon the execution, and delivery to an officer of the Company, of the Company's Confidential Information and Invention Assignment Agreement, a copy of which is enclosed for your review and execution (the "Confidentiality Agreement"), prior to or on your Start Date.

b. **Right to Work.** For purposes of federal immigration law, you will be required to provide to the Company documentary evidence of your identity and eligibility for employment in the United States. Such documentation must be provided to us no later than your Start Date, or our employment relationship with you may be terminated.

c. **Verification of Information.** This offer of employment is also contingent upon the successful verification of the information you provided to the Company during your application process, as well as a general background check performed by the Company to confirm your suitability for employment. By accepting this offer of employment, you warrant that all information provided by you is true and correct to the best of your knowledge, and you expressly release all parties from any and all liability for damages that may result from obtaining, furnishing, collecting or verifying such information, as well as from the use of or disclosure of such information by the Company or its agents. You have a right to review copies of any public records obtained by the Company in conducting this verification process unless you check the box below.

I hereby waive my right to receive any public records as described above.

**8. No Conflicting Obligations.** You understand and agree that by accepting this offer of employment, you represent to the Company that performance of your duties to the Company and the terms of this Agreement and the Confidentiality Agreement will not breach any other agreement (written or oral) to which you are a party (including without limitation, current or past employers) and that you have not, and will not during the term of your employment with the Company, enter into any oral or written agreement which may result in a conflict of interest or may otherwise be in conflict with any of the provisions of this Agreement, the Confidentiality Agreement or the Company's policies. You are not to bring with you to the Company, or use or disclose to any person associated with the Company, any confidential or proprietary information belonging to any former employer or other person or entity with respect to which you owe an obligation of confidentiality under any agreement or otherwise. The Company does not need



and will not use such information. Also, we expect you to abide by any obligations to refrain from soliciting any person employed by or otherwise associated with any former employer and suggest that you refrain from having any contact with such persons until such time as any non-solicitation obligation expires. To the extent that you are bound by any such obligations, you must inform the Company immediately prior to accepting this Agreement.

**9. General Obligations.** As an employee, you will be expected to adhere to the Company's standards of professionalism, loyalty, integrity, honesty, reliability and respect for all. Please note that the Company is an equal opportunity employer. The Company does not permit, and will not tolerate, the unlawful discrimination or harassment of any employees, consultants, or related third parties on the basis of sex, race, color, religion, age, national origin or ancestry, marital status, veteran status, mental or physical disability or medical condition, sexual orientation, pregnancy, childbirth or related medical condition, or any other status protected by applicable law. Any questions regarding this EEO statement should be directed to Human Resources.

**10. Termination Obligations.**

a. You agree that all property, including, without limitation, all equipment, proprietary information, documents, books, records, reports, notes, contracts, lists, computer disks (and other computer-generated files and data), and copies thereof, created on any medium and furnished to, obtained by, or prepared by you in the course of or incident to your employment, belongs to the Company and shall be returned to the Company promptly upon any termination of your employment, or sooner if so requested by the Company.

b. Upon your termination of your employment with the Company for any reason, if applicable, you will resign in writing (or be deemed to have resigned) from all other offices and directorships then held with the Company or any affiliate of the Company, unless otherwise agreed with the Company.

c. Following the termination of your employment with the Company for any reason, you shall fully cooperate with the Company in all matters relating to the winding up of pending work on behalf of the Company and the orderly transfer of work to other employees of the Company. You shall also cooperate in the defense of any action brought by any third party against the Company. If necessary, the Company shall pay you for your time incurred to comply with this provision at a reasonable per diem or per hour rate as to be determined by the Company.

d. Following the termination of your employment with the Company for any reason, you agree that you will not at any time make any statements or comments (written or oral) to any third party or take any action disparaging the integrity or reputation of the Company or any of its subsidiaries, employees, officers, directors, stockholders or affiliates. You also agree that you will not do or say anything that could disrupt the good morale of the employees of any of the companies listed above or harm their respective businesses or reputations of the companies and persons listed above.

**11. Miscellaneous Terms.**

a. Entire Agreement. This Agreement, together with its Attachment A (the Confidentiality Agreement), set forth the entire terms of your employment with the Company (other than





the Equity Plan Documents) and supersede any prior representations or agreements, whether written or oral.

b. Governing Law. This Agreement will be governed by the laws of California, without regard to its conflict of laws provisions. This Agreement may not be modified or amended except by a written agreement, signed by the CEO (or his authorized representative) of the Company.

c. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original but all of which shall together constitute one and the same instrument.

d. Severability. Nothing contained in this Agreement shall be construed as requiring the commission of any act contrary to law, and wherever there is any conflict between any provision of this Agreement and any present or future statute, law, ordinance or regulation contrary to which the parties have no legal right to contract, the latter shall prevail, but in such event, any provision of this Agreement thus affected shall be curtailed and limited only to the extent necessary to bring it within the requirements of the law. In the event that any part, article, paragraph or clause of this Agreement shall be held to be indefinite or invalid, the entire Agreement shall not fail on account thereof, and the balance of the Agreement shall continue in full force and effect.

e. Waiver. Failure or delay of either party to insist upon compliance with any provision hereof will not operate as, and is not to be construed as, a waiver or amendment of such provision or the right of the aggrieved party to insist upon compliance with such provision or to take remedial steps to recover damages or other relief for noncompliance. Any express waiver of any provision of this Agreement will not operate and is not to be construed as a waiver of any subsequent breach, whether occurring under similar or dissimilar circumstances.

We are all delighted to be able to extend you this offer and look forward to working with you. To indicate your acceptance of the Company's offer, please sign and date this Agreement in the space provided below and return it to me, along with a signed and dated original copy of the Confidentiality Agreement, prior to the expiration date specified in the opening paragraph of this Agreement.

Very truly yours,

PANDORA MEDIA, INC.

By: /s/ Brian McAndrews

McAndrews

Executive Officer

Name: Brian

Title: Chief

**ACCEPTED AND AGREED:**



I have read this offer and agree to accept employment with Company under the terms set forth in this Agreement.

Sara Clemens

/s/ Sara Clemens  
Signature

22 Jan 2014  
Date



## Attachment A

### Confidential Information and Invention Assignment Agreement

2101 WEBSTER ST • STE 1650 • OAKLAND, CA 94612 | T 510.451.4100 | F 510.451.4286 | PANDORA.COM

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### Section 3: EX-10.26 (EXHIBIT 10.26)



October 13, 2014

Steve Bene

Re: Employment Offer

Dear Steve:

On behalf of Pandora Media, Inc. (the "Company"), we are pleased to offer you the position of General Counsel. This letter agreement sets forth the terms and conditions of your employment with the Company ("Agreement") if you accept and commence such employment. Please understand that this offer, if not accepted, will expire on **Wednesday, October 15, 2014**. In addition, as this is an executive officer position for the Company, your appointment must be approved by our Board of Directors.

**1. Responsibilities; Duties.** You are expected to begin work on **October 20, 2014** (the "Start Date") contingent on successful completion of your background check. You are required to faithfully and conscientiously perform your assigned duties and to diligently observe all your obligations to the Company. You agree to devote your full business time and efforts, energy and skill to your employment at the Company, and you agree to apply all your skill and experience to the performance of your duties and advancing Company's interests. During your employment with the Company, you may not perform services as an employee or consultant of any other competitive organization and you will not assist any other person or organization in competing with the Company or in preparing to engage in competition with the business or proposed business of the Company. Any other outside relationships you engage in should be made known to the Company's General Counsel and CEO in writing. You shall comply with and be bound by Company's operating policies, procedures, and practices from time to time in effect during your employment.

**2. Compensation.** In consideration for rendering services to the Company during the term of your employment and fulfilling your obligations under this Agreement, you will be eligible to receive the benefits set forth in this Agreement.

a. Base Salary. In this exempt full-time position, you will earn an annual base salary of \$350,000 (prorated for any partial pay period that occurs during the term of your employment), subject to applicable tax withholdings. Your salary will be payable pursuant to the Company's regular payroll policy.

b. Business Expenses. The Company shall, upon submission and approval of written statements and bills in accordance with the then regular procedures of the Company, pay or reimburse you for any and all necessary, customary and usual expenses incurred by you while traveling for or on behalf of the Company, and any and all other necessary, customary or usual expenses (including entertainment) incurred by you for or on behalf of the Company in the normal course of business, as determined to be appropriate by the Company. It is your responsibility to review and comply with the Company's business expense reimbursement policies.

c. **Performance Bonus.** You will be eligible to participate in the Corporate Incentive Plan (CIP) with a target bonus of 50% of your base salary prorated to your start date. The actual bonus amount paid will be determined in the sole and absolute discretion of the Company's Compensation Committee. Any bonus eligibility for future years will be subject to the terms and conditions of any bonus or incentive compensation plan that the Company adopts at a later time. Nothing hereunder shall be construed or interpreted as a guarantee for you to receive any bonuses or incentive compensation.

**3. Employee Benefits.** You will be eligible to participate in any employee benefit plans or programs maintained or established by the Company including, but not limited to, paid time off, group health benefits, life insurance, dental plan, and other benefits made available generally to employees, subject to eligibility requirements and the applicable terms and conditions of the plan or program in question and the determination of any committee administering such plan or program. To the extent approved by the Board of Directors or its Compensation Committee from time to time, you will be eligible for any severance or change in control policy of the Company that is then applicable to similarly situated U.S. employees. You will be asked to sign an Indemnification Agreement with the Company and be subject to the terms and conditions thereof. You will be an "Eligible Officer" under the Company's Executive Severance and Change in Control Policy ("Severance Policy") and be subject to the terms and conditions thereof, which include, but are not limited to, the severance provisions set forth below:

a. **Non-change in control severance.** If the Eligible Officer is terminated by reason of an Involuntary Termination (as defined under the Severance Policy) the Eligible Officer is entitled, subject to the terms of the Severance Policy, to receive 6 months of salary, health benefits and accelerated vesting of equity awards, plus a prorated annual bonus for the year of termination and outplacement services.

b. **Change in control severance.** If Eligible Officer is terminated by reason of a Change of Control Termination (as defined under the Severance Policy) the Eligible Officer is entitled, subject to the terms of the Severance Policy, to receive 12 months of salary and health benefits, 100% accelerated vesting of equity awards and the opportunity to extend the exercise period of certain options for up to 12 months following termination, plus a prorated annual bonus for the year of termination and outplacement services

**4. Equity Grant.** In connection with the commencement of your employment, the Company will recommend that the Board of Directors grant you the following equity grants subject to the terms of the Company's equity plan:

a. **Restricted Stock Units (the "RSUs")** In connection with the commencement of your employment, the Company will grant you an equity award (the "Award") with an intended value of approximately \$2,200,000, which will be converted to a number of Restricted Stock Units ("RSUs") prior to the grant date using the Company's standard conversion methodology (which is generally based on average stock prices over a number of months prior to the grant date). Each year, 25% of the RSUs granted as part of the Award will vest starting with the first standard quarterly Company vesting date that is approximately one year after the grant date and continuing quarterly for three years thereafter. Vesting will, of course, depend on your continued employment with the Company on the applicable vesting dates. The RSUs will be subject to the terms of the Company's equity incentive plan and the Restricted Stock Unit Agreement between you and the Company. You



understand that issuing the RSUs is expressly contingent on approval by our board of directors (or its delegate) and receipt of a fully executed Restricted Stock Unit Agreement and any related documents as may be requested by the Company.

**5. At-Will Employment.** Your employment with the Company will be on an “at will” basis, meaning that either you or the Company may terminate your employment at any time without notice and for any reason or no reason, without further obligation or liability. Further, your continued employment as well as your participation in any benefit programs does not assure you of continuing employment with the Company. The Company also reserves the right to modify or amend the terms of your employment, compensation and benefit plans at any time for any reason. This policy of at-will employment is the entire agreement as to the duration of your employment and may only be modified in an express written agreement signed by the Chief Executive Officer of the Company.

**6. Pre-employment Conditions.**

a. **Confidentiality Agreement.** Your acceptance of this offer and commencement of employment with the Company is contingent upon the execution, and delivery to an officer of the Company, of the Company’s Confidential Information and Invention Assignment Agreement, a copy of which is enclosed for your review and execution (the “Confidentiality Agreement”), prior to or on your Start Date.

b. **Right to Work.** For purposes of federal immigration law, you will be required to provide to the Company documentary evidence of your identity and eligibility for employment in the United States. Such documentation must be provided to us no later than your Start Date, or our employment relationship with you may be terminated.

c. **Verification of Information.** This offer of employment is also contingent upon the successful verification of the information you provided to the Company during your application process, as well as a background check performed by the Company to confirm your suitability for employment. By accepting this offer of employment, you warrant that all information provided by you is true and correct to the best of your knowledge, and you expressly release all parties from any and all liability for damages that may result from obtaining, furnishing, collecting or verifying such information, as well as from the use of or disclosure of such information by the Company or its agents. You have a right to review copies of any public records obtained by the Company in conducting this verification process unless you check the box below.

I hereby waive my right to receive any public records as described above.

**7. No Conflicting Obligations.** You understand and agree that by accepting this offer of employment, you represent to the Company that performance of your duties to the Company and the terms of this Agreement and the Confidentiality Agreement will not breach any other agreement (written or oral) to which you are a party (including without limitation, current or past employers) and that you have not, and will not during the term of your employment with the Company, enter into any oral or written agreement which may result in a conflict of interest or may otherwise be in conflict with any of the provisions of this Agreement, the Confidentiality Agreement or the Company’s policies. You are not to bring with you to the Company, or use or disclose to any person associated with the Company, any confidential or proprietary information belonging to any former employer or other person or entity with respect to which



you owe an obligation of confidentiality under any agreement or otherwise. The Company does not need and will not use such information. Also, we expect you to abide by any obligations to refrain from soliciting any person employed by or otherwise associated with any former employer and suggest that you refrain from having any contact with such persons until such time as any non-solicitation obligation expires. To the extent that you are bound by any such obligations, you must inform the Company immediately prior to accepting this Agreement.

**8. General Obligations.** As an employee, you will be expected to adhere to the Company's standards of professionalism, loyalty, integrity, honesty, reliability and respect for all. Please note that the Company is an equal opportunity employer. The Company does not permit, and will not tolerate, the unlawful discrimination or harassment of any employees, consultants, or related third parties on the basis of sex, race, color, religion, age, national origin or ancestry, marital status, veteran status, mental or physical disability or medical condition, sexual orientation, pregnancy, childbirth or related medical condition, or any other status protected by applicable law. Any questions regarding this EEO statement should be directed to Human Resources.

**9. Termination Obligations.**



a. You agree that all property, including, without limitation, all equipment, proprietary information, documents, books, records, reports, notes, contracts, lists, computer disks (and other computer-generated files and data), and copies thereof, created on any medium and furnished to, obtained by, or prepared by you in the course of or incident to your employment, belongs to the Company and shall be returned to the Company promptly upon any termination of your employment, or sooner if so requested by the Company.

b. Upon your termination of your employment with the Company for any reason, if applicable, you will resign in writing (or be deemed to have resigned) from all other offices and directorships then held with the Company or any affiliate of the Company, unless otherwise agreed with the Company.

c. Following the termination of your employment with the Company for any reason, you shall fully cooperate with the Company in all matters relating to the winding up of pending work on behalf of the Company and the orderly transfer of work to other employees of the Company. You shall also cooperate in the defense of any action brought by any third party against the Company. If necessary, the Company shall pay you for your time incurred to comply with this provision at a reasonable per diem or per hour rate as to be determined by the Company.

d. Following the termination of your employment with the Company for any reason, you agree that you will not at any time make any statements or comments (written or oral) to any third party or take any action disparaging the integrity or reputation of the Company or any of its subsidiaries, employees, officers, directors, stockholders or affiliates. You also agree that you will not do or say anything that could disrupt the good morale of the employees of any of the companies listed above or harm their respective businesses or reputations of the companies and persons listed above.

## **10. Miscellaneous Terms.**

a. Entire Agreement. This Agreement, together with its Attachment A (the Confidentiality Agreement), set forth the entire terms of your employment with the Company (other than the Equity Plan Documents) and supersede any prior representations or agreements, whether written or oral.

b. Governing Law. This Agreement will be governed by the laws of California, without regard to its conflict of laws provisions. This Agreement may not be modified or amended except by a written agreement, signed by the CEO (or his authorized representative) of the Company.

c. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original but all of which shall together constitute one and the same instrument.

d. Severability. Nothing contained in this Agreement shall be construed as requiring the commission of any act contrary to law, and wherever there is any conflict between any provision of this Agreement and any present or future statute, law, ordinance or regulation contrary to which the parties have no legal right to contract, the latter shall prevail, but in such event, any provision of this Agreement thus affected shall be curtailed and limited only to the extent necessary to bring it within the requirements of the law. In the event that any part, article, paragraph or clause of this Agreement shall be held to be





indefinite or invalid, the entire Agreement shall not fail on account thereof, and the balance of the Agreement shall continue in full force and effect.

e. Waiver. Failure or delay of either party to insist upon compliance with any provision hereof will not operate as, and is not to be construed as, a waiver or amendment of such provision or the right of the aggrieved party to insist upon compliance with such provision or to take remedial steps to recover damages or other relief for noncompliance. Any express waiver of any provision of this Agreement will not operate and is not to be construed as a waiver of any subsequent breach, whether occurring under similar or dissimilar circumstances.

We are all delighted to be able to extend you this offer and look forward to working with you. To indicate your acceptance of the Company's offer, please sign and date this Agreement in the space provided below and return it to me, along with a signed and dated original copy of the Confidentiality Agreement, prior to the expiration date specified in the opening paragraph of this Agreement.

Very truly yours,

PANDORA MEDIA, INC.

By: /s/ Brian McAndrews

McAndrews

Executive Officer

Name: Brian

Title: Chief

**ACCEPTED AND AGREED:**

I have read this offer and agree to accept employment with Company under the terms set forth in this Agreement.

Steve Bene

/s/ Steve Bene  
Signature

10/14/2014  
Date



## Attachment A

### Confidential Information and Invention Assignment Agreement

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## Section 4: EX-10.27 (EXHIBIT 10.27)



October 16, 2014

Chris Phillips

Re: Employment Offer

Dear Chris:

On behalf of Pandora Media, Inc. (the "Company"), we are pleased to offer you the position of Chief Product Officer. This letter agreement sets forth the terms and conditions of your employment with the Company ("Agreement") if you accept and commence such employment. Please understand that this offer, if not accepted, will expire on **Monday, October 20, 2014**. In addition, as this is an executive officer position for the Company, your appointment must be approved by our Board of Directors.

**1. Responsibilities; Duties.** You are expected to begin work on **October 30, 2014** (the "Start Date"). You are required to faithfully and conscientiously perform your assigned duties and to diligently observe all your obligations to the Company. You agree to devote your full business time and efforts, energy and skill to your employment at the Company, and you agree to apply all your skill and experience to the performance of your duties and advancing Company's interests. During your employment with the Company, you may not perform services as an employee or consultant of any other competitive organization and you will not assist any other person or organization in competing with the Company or in preparing to engage in competition with the business or proposed business of the Company. Any other outside relationships you engage in should be made known to the Company's General Counsel and CEO in writing. You shall comply with and be bound by Company's operating policies, procedures, and practices from time to time in effect during your employment.

**2. Compensation.** In consideration for rendering services to the Company during the term of your employment and fulfilling your obligations under this Agreement, you will be eligible to receive the benefits set forth in this Agreement.

a. Base Salary. In this exempt full-time position, you will earn an annual base salary of \$350,000 (prorated for any partial pay period that occurs during the term of your employment), subject to applicable tax withholdings. Your salary will be payable pursuant to the Company's regular payroll policy.

b. Business Expenses. The Company shall, upon submission and approval of written statements and bills in accordance with the then regular procedures of the Company, pay or reimburse you for any and all necessary,

customary and usual expenses incurred by you while traveling for or on behalf of the Company, and any and all other necessary, customary or usual expenses (including entertainment) incurred by you for or on behalf of the Company in the normal course of business, as determined to be appropriate by the Company. It is your responsibility to review and comply with the Company's business expense reimbursement policies.

c. Performance Bonus. You will be eligible to participate in the Corporate Incentive Plan (CIP) with a target bonus of 50% of your base salary prorated to your start date. The actual bonus



amount paid will be determined in the sole and absolute discretion of the Company's Compensation Committee. Any bonus eligibility for future years will be subject to the terms and conditions of any bonus or incentive compensation plan that the Company adopts at a later time. Nothing hereunder shall be construed or interpreted as a guarantee for you to receive any bonuses or incentive compensation.

d. **Signing Bonus.** To the extent that you commence employment on the Start Date, you will be eligible to receive a one-time signing bonus in the gross amount of \$150,000 subject to applicable tax withholdings. \$75,000 of this bonus shall be paid no later than 30 days following your start date at the Company. The remaining \$75,000 shall be paid no later than 7 days following your 6 month anniversary date. This bonus is offered as an incentive for you to stay with the Company. Therefore, if you terminate your employment with the Company within 12 months of your Start Date or if you are terminated by the Company for "Cause" (as defined below) within 12 months of your Start Date, you shall be required to pay back the Company the entire sum of this signing bonus. The Company is authorized to deduct and offset repayment of this bonus against any sums which are then due to you at the time of your termination, to the extent permitted by applicable laws. For purposes of this agreement, "Cause" shall mean (i) a failure or a refusal to comply in any material respect with the reasonable policies, standards or regulations of Company; (ii) unprofessional, unethical or fraudulent conduct or conduct that materially discredits Company or is materially detrimental to the reputation, character or standing of Company; (iii) dishonest conduct or a deliberate attempt to do an injury to Company; (iv) your material breach of this Agreement or any breach of confidentiality or proprietary information agreements with the Company, including, without limitation, theft of Company's proprietary information; (v) an unlawful or criminal act which would reflect badly on Company in Company's reasonable judgment; or (vi) absence from work without an approved leave.

**3. Employee Benefits.** You will be eligible to participate in any employee benefit plans or programs maintained or established by the Company including, but not limited to, paid time off, group health benefits, life insurance, dental plan, and other benefits made available generally to employees, subject to eligibility requirements and the applicable terms and conditions of the plan or program in question and the determination of any committee administering such plan or program. To the extent approved by the Board of Directors or its Compensation Committee from time to time, you will be eligible for any severance or change in control policy of the Company that is then applicable to similarly situated U.S. employees. You will be asked to sign an Indemnification Agreement with the Company and be subject to the terms and conditions thereof. You will be an "Eligible Officer" under the Company's Executive Severance and Change in Control Policy ("Severance Policy") and be subject to the terms and conditions thereof, which include, but are not limited to, the severance provisions set forth below:

a. **Non-change in control severance.** If the Eligible Officer is terminated by reason of an Involuntary Termination (as defined under the Severance Policy) the Eligible Officer is entitled, subject to the terms of the Severance Policy, to receive 6 months of salary, health benefits and accelerated vesting of equity awards, plus a prorated annual bonus for the year of termination and outplacement services.

b. **Change in control severance.** If Eligible Officer is terminated by reason of a Change of Control Termination (as defined under the Severance Policy) the Eligible Officer is entitled, subject to the terms of the Severance Policy, to receive 12 months of salary and health benefits, 100% accelerated vesting of equity awards and the opportunity to extend the exercise period of certain



options for up to 12 months following termination, plus a prorated annual bonus for the year of termination and outplacement services

**4. Equity Grant.** In connection with the commencement of your employment, the Company will recommend that the Board of Directors grant you the following equity grants subject to the terms of the Company's equity plan:

a. **Restricted Stock Units (the "RSUs")** In connection with the commencement of your employment, the Company will grant you an equity award (the "Award") with an intended value of approximately \$2,500,000, which will be converted to a number of Restricted Stock Units ("RSUs") prior to the grant date using the Company's standard conversion methodology (which is generally based on average stock prices over a number of months prior to the grant date). Each year, 25% of the RSUs granted as part of the Award will vest starting with the first standard quarterly Company vesting date that is approximately one year after the grant date and continuing quarterly for three years thereafter. Vesting will, of course, depend on your continued employment with the Company on the applicable vesting dates. The RSUs will be subject to the terms of the Company's equity incentive plan and the Restricted Stock Unit Agreement between you and the Company. You understand that issuing the RSUs is expressly contingent on approval by our board of directors (or its delegate) and receipt of a fully executed Restricted Stock Unit Agreement and any related documents as may be requested by the Company.

**5. At-Will Employment.** Your employment with the Company will be on an "at will" basis, meaning that either you or the Company may terminate your employment at any time without notice and for any reason or no reason, without further obligation or liability. Further, your continued employment as well as your participation in any benefit programs does not assure you of continuing employment with the Company. The Company also reserves the right to modify or amend the terms of your employment, compensation and benefit plans at any time for any reason. This policy of at-will employment is the entire agreement as to the duration of your employment and may only be modified in an express written agreement signed by the Chief Executive Officer of the Company.

**6. Pre-employment Conditions.**

a. **Confidentiality Agreement.** Your acceptance of this offer and commencement of employment with the Company is contingent upon the execution, and delivery to an officer of the Company, of the Company's Confidential Information and Invention Assignment Agreement, a copy of which is enclosed for your review and execution (the "Confidentiality Agreement"), prior to or on your Start Date.

b. **Right to Work.** For purposes of federal immigration law, you will be required to provide to the Company documentary evidence of your identity and eligibility for employment in the United States. Such documentation must be provided to us no later than your Start Date, or our employment relationship with you may be terminated.

c. **Verification of Information.** This offer of employment is also contingent upon the successful verification of the information you provided to the Company during your application process, as well as a background check performed by the Company to confirm your suitability for employment. By accepting this offer of employment, you warrant that all information provided by you is true and correct to



the best of your knowledge, and you expressly release all parties from any and all liability for damages that may result from obtaining, furnishing, collecting or verifying such information, as well as from the use of or disclosure of such information by the Company or its agents. You have a right to review copies of any public records obtained by the Company in conducting this verification process unless you check the box below.

I hereby waive my right to receive any public records as described above.

**7. No Conflicting Obligations.** You understand and agree that by accepting this offer of employment, you represent to the Company that performance of your duties to the Company and the terms of this Agreement and the Confidentiality Agreement will not breach any other agreement (written or oral) to which you are a party (including without limitation, current or past employers) and that you have not, and will not during the term of your employment with the Company, enter into any oral or written agreement which may result in a conflict of interest or may otherwise be in conflict with any of the provisions of this Agreement, the Confidentiality Agreement or the Company's policies. You are not to bring with you to the Company, or use or disclose to any person associated with the Company, any confidential or proprietary information belonging to any former employer or other person or entity with respect to which you owe an obligation of confidentiality under any agreement or otherwise. The Company does not need and will not use such information. Also, we expect you to abide by any obligations to refrain from soliciting any person employed by or otherwise associated with any former employer and suggest that you refrain from having any contact with such persons until such time as any non-solicitation obligation expires. To the extent that you are bound by any such obligations, you must inform the Company immediately prior to accepting this Agreement.

**8. General Obligations.** As an employee, you will be expected to adhere to the Company's standards of professionalism, loyalty, integrity, honesty, reliability and respect for all. Please note that the Company is an equal opportunity employer. The Company does not permit, and will not tolerate, the unlawful discrimination or harassment of any employees, consultants, or related third parties on the basis of sex, race, color, religion, age, national origin or ancestry, marital status, veteran status, mental or physical disability or medical condition, sexual orientation, pregnancy, childbirth or related medical condition, or any other status protected by applicable law. Any questions regarding this EEO statement should be directed to Human Resources.

**9. Termination Obligations.**



a. You agree that all property, including, without limitation, all equipment, proprietary information, documents, books, records, reports, notes, contracts, lists, computer disks (and other computer-generated files and data), and copies thereof, created on any medium and furnished to, obtained by, or prepared by you in the course of or incident to your employment, belongs to the Company and shall be returned to the Company promptly upon any termination of your employment, or sooner if so requested by the Company.

b. Upon your termination of your employment with the Company for any reason, if applicable, you will resign in writing (or be deemed to have resigned) from all other offices and directorships then held with the Company or any affiliate of the Company, unless otherwise agreed with the Company.

c. Following the termination of your employment with the Company for any reason, you shall fully cooperate with the Company in all matters relating to the winding up of pending work on behalf of the Company and the orderly transfer of work to other employees of the Company. You shall also cooperate in the defense of any action brought by any third party against the Company. If necessary, the Company shall pay you for your time incurred to comply with this provision at a reasonable per diem or per hour rate as to be determined by the Company.

d. Following the termination of your employment with the Company for any reason, you agree that you will not at any time make any statements or comments (written or oral) to any third party or take any action disparaging the integrity or reputation of the Company or any of its subsidiaries, employees, officers, directors, stockholders or affiliates. You also agree that you will not do or say anything that could disrupt the good morale of the employees of any of the companies listed above or harm their respective businesses or reputations of the companies and persons listed above.

## **10. Miscellaneous Terms.**

a. Entire Agreement. This Agreement, together with its Attachment A (the Confidentiality Agreement), set forth the entire terms of your employment with the Company (other than the Equity Plan Documents) and supersede any prior representations or agreements, whether written or oral.

b. Governing Law. This Agreement will be governed by the laws of California, without regard to its conflict of laws provisions. This Agreement may not be modified or amended except by a written agreement, signed by the CEO (or his authorized representative) of the Company.

c. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original but all of which shall together constitute one and the same instrument.

d. Severability. Nothing contained in this Agreement shall be construed as requiring the commission of any act contrary to law, and wherever there is any conflict between any provision of this Agreement and any present or future statute, law, ordinance or regulation contrary to which the parties have no legal right to contract, the latter shall prevail, but in such event, any provision of this Agreement thus affected shall be curtailed and limited only to the extent necessary to bring it within the requirements of the law. In the event that any part, article, paragraph or clause of this Agreement shall be held to be



indefinite or invalid, the entire Agreement shall not fail on account thereof, and the balance of the Agreement shall continue in full force and effect.

e. Waiver. Failure or delay of either party to insist upon compliance with any provision hereof will not operate as, and is not to be construed as, a waiver or amendment of such provision or the right of the aggrieved party to insist upon compliance with such provision or to take remedial steps to recover damages or other relief for noncompliance. Any express waiver of any provision of this Agreement will not operate and is not to be construed as a waiver of any subsequent breach, whether occurring under similar or dissimilar circumstances.

We are all delighted to be able to extend you this offer and look forward to working with you. To indicate your acceptance of the Company's offer, please sign and date this Agreement in the space provided below and return it to me, along with a signed and dated original copy of the Confidentiality Agreement, prior to the expiration date specified in the opening paragraph of this Agreement.

Very truly yours,

PANDORA MEDIA, INC.

By: /s/ Brian McAndrews

McAndrews

Executive Officer

Name: Brian

Title: Chief

**ACCEPTED AND AGREED:**

I have read this offer and agree to accept employment with Company under the terms set forth in this Agreement.

Chris Phillips

/s/ Christopher Phillips

Signature

October 20, 2014

Date





Attachment A

Confidential Information and Invention Assignment Agreement

2101 WEBSTER ST • STE 1650 • OAKLAND, CA 94612 | T 510.451.4100 | F 510.451.4286 | PANDORA.COM

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**Section 5: EX-10.28 (EXHIBIT 10.28)**

**PANDORA MEDIA, INC.**

**2011 Equity Incentive Plan**

**NOTICE OF MARKET STOCK UNIT GRANT**

«Recipient»

You have been granted market stock units (the “MSUs”), each representing the right to receive one share of Common Stock of Pandora Media, Inc. (the “Company”) (the “Shares”), as follows:

|                       |   |
|-----------------------|---|
| Date of Grant:        | «GrantDate»   |
| Target MSUs:          | X   |
| Earned MSUs:          | The actual number of MSUs that may be earned will be between 0% and 200% of the Target MSUs set forth above, depending on the achievement of the Performance Criteria. The “ <u>Maximum MSUs</u> ” means 200% of the Target MSUs.   |
| Performance Criteria: | «_____»   |
| Vesting Dates:        | The number of MSUs earned for any Performance Period (as defined on Attachment A) shall vest on February 15 of the calendar year immediately following the end of the applicable Performance Period, so long as your Continuous Service Status continues until such vesting date. |

For purposes of any accelerated vesting of equity awards provided in any severance provision of any Company policy, plan or agreement, no portion of the MSUs shall be eligible for accelerated vesting if a termination of employment occurs before the end of the applicable Performance

Period.

Performance Period(s):

“Performance Period 1” means the one-year period from «\_\_\_\_\_»  
through «\_\_\_\_\_».

“Performance Period 2” means the two-year period from « \_\_\_\_\_ » through « \_\_\_\_\_ ».

“Performance Period 3” means the three-year period from « \_\_\_\_\_ » through « \_\_\_\_\_ ».

By accepting these MSUs, you agree that these MSUs are granted under and governed by the terms and conditions of the Pandora Media, Inc. 2011 Equity Incentive Plan and the Market Stock Unit Agreement attached hereto and incorporated by reference herein.

In addition, you agree and acknowledge that your rights to any Shares underlying the MSUs will be earned only as you provide services to the Company over time and that nothing in this Notice or the attached documents confers upon you any right to continue your employment or consulting relationship with the Company for any period of time, nor does it interfere in any way with your right or the Company’s right to terminate that relationship at any time, for any reason, with or without cause.

**PANDORA MEDIA, INC.**

\_\_\_\_\_  
«Recipient»

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**PANDORA MEDIA, INC.**

**2011 EQUITY INCENTIVE PLAN**

**MARKET STOCK UNIT AGREEMENT**

1. *Grant of Award.* Pandora Media, Inc., a Delaware corporation (the “Company”), hereby grants to you (“Participant”) the MSUs as set forth, and subject to the terms and conditions, in the Notice of Market Stock Unit Grant (the “Notice”), subject further to the terms, definitions and provisions of the Pandora Media, Inc. 2011 Equity Incentive Plan (the “Plan”) adopted by the Company, which is incorporated in this Agreement by reference. Unless otherwise defined in this Agreement, the terms used in this Agreement shall have the meanings defined in the Notice or the Plan, as applicable. The terms and conditions of this Market Stock Unit Award Agreement (this “Agreement”), to the extent not controlled by the terms and conditions contained in the Plan, are as follows:

2. *Vesting.* To the extent the MSUs are earned as provided in the Notice, the MSUs shall become vested, subject to Participant remaining in Continuous Service Status on the applicable vesting date, based on the Performance Criteria and schedule as set forth in the Notice (including Attachment A thereto).

3. *Forfeiture of Unvested MSUs.* Immediately upon termination of Participant’s employment for any reason (including death or disability), any unvested MSUs shall be forfeited without consideration.

4. *Conversion into Common Stock.* Shares will be issued on the applicable vesting date (or, to the extent not administratively feasible, as soon as practicable thereafter) in accordance with the Notice (including Attachment A thereto). As a condition to such issuance, Participant shall have satisfied his or her tax withholding obligations as specified in this Agreement and shall have completed, signed and returned any documents and taken any additional action that the Company deems appropriate to enable it to accomplish the delivery of the Shares. In no event will the Company be obligated to issue a fractional share and any such fractional share may be rounded down by the Company. Notwithstanding the foregoing, (i) the Company shall not be obligated to deliver any Shares during any period when the Company determines that the conversion of a MSU or the delivery of shares hereunder would violate any federal, state or other applicable laws and/or may issue shares subject to any restrictive legends that, as determined by the Company’s counsel, is necessary to comply with securities or other regulatory requirements, and (ii) the date on which shares are issued may include a delay in order to provide the Company such time as it determines appropriate to address tax withholding and other administrative matters.

5. *Tax Treatment.* Any withholding tax liabilities (whether as a result of federal, state or other law and whether for the payment and satisfaction of any income

tax, social security tax, payroll tax, or payment on account of other tax related to withholding obligations that arise by reason of the MSUs) incurred in connection with the MSUs becoming vested and Shares issued, or otherwise incurred in connection with the MSUs, may be satisfied in any of the following manners determined by the Company (and the Company may with notice to Participant require any of the following methods): (i) by the sale by Participant of a number of Shares that are issued under the MSUs, which the Company determines is sufficient to generate an amount that meets the tax withholding obligations plus additional shares to account for rounding and market fluctuations, and payment of such tax withholding to the Company, and such Shares may be sold as part of a block trade with other participants of the Plan; (ii) with the consent of the Company in its discretion, by the Company withholding a number of Shares that would otherwise be issued under the MSUs that the Company determines have a fair market value equal to the minimum amount of taxes that the Company concludes it is required to withhold under applicable law; or (iii) by payment by Participant to the Company in cash or by check an amount equal to the minimum amount of taxes that the Company concludes it is required to withhold under applicable law. Participant hereby authorizes the Company to withhold such tax withholding amount from any amounts owing to Participant to the Company and to take any action necessary in accordance with this paragraph. The MSUs are intended to be exempt from Section 409A of the Code pursuant to the short-term deferral exception therefrom, and any Shares shall be issued within the time period required thereby.

Notwithstanding the foregoing, Participant acknowledges and agrees that he is responsible for all taxes that arise in connection with the MSUs becoming vested and Shares being issued or otherwise incurred in connection with the MSUs, regardless of any action the Company takes pursuant to this Section.

6. *Section 162(m)*. If these MSUs are intended to be “performance-based compensation” under Section 162(m) of the Code, then as soon as practicable following the completion of any Performance Period and prior to the applicable Vesting Date, the Committee shall certify in writing the extent to which the Performance Criteria have been achieved, if at all (such certification being hereinafter referred to as the “Committee Certification”), and the Committee shall not exercise its discretion to increase the number of MSUs that are earned pursuant to such Performance Criteria.

7. *Restrictions on Transfer*. Participant understands and agrees that the MSUs may not be sold, given, transferred, assigned, pledged or otherwise hypothecated by the holder.

8. *No Stockholder Rights*. Participant will have no voting or other rights as the Company’s other stockholders with respect to the Shares until issuance of the Shares.

9. *No Employment/Service Rights*. Neither this Agreement nor the grant of the MSUs hereby confers on Participant any right to continue in the employ or service of the Company or any Subsidiary or interferes in any way with the right of the Company or any Subsidiary to determine the terms of Participant’s employment or service.

10. *Entire Agreement; Terms of Plan, Interpretations.* Participant acknowledges that he has received and reviewed a copy of the Plan. This Agreement (including the Notice) contains the entire understanding of the parties hereto in respect of the subject matter contained herein. This Agreement together with the Plan supersedes all prior agreements and understandings between the parties hereto with respect to the subject matter hereof. This Agreement and the terms and conditions herein set forth are subject in all respects to the terms and conditions of the Plan, which shall be controlling. All interpretations or determinations of the Committee and/or the Board shall be binding and conclusive upon Participant and his legal representatives on any question arising hereunder.

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## **Section 6: EX-10.17D (EXHIBIT 10.17D)**

### **Pandora Media Corporate Incentive Plan for Fiscal Year Ending December 31, 2015**

The Pandora Media, Inc. (“**Pandora**”) Corporate Incentive Plan for the fiscal year ending December 31, 2015 (the “**Plan**”) is designed to reward eligible employees for their efforts toward the accomplishment of Pandora’s goals during the Plan Year. For purposes of the Plan, “**Plan Year**” means Pandora’s fiscal year starting January 1, 2015 through and including December 31, 2015 (“**Calendar Year 2015**”).

#### **Eligibility**

**Eligibility under the Plan does not represent a commitment or guarantee that you will receive any payment under the Plan. If, for any reason, you are not an active employee of Pandora (or one of its eligible subsidiaries as determined by the Compensation Committee) in good standing on the last day of Calendar Year 2015, you will not be eligible to receive a bonus under the Plan.** Furthermore, the decision to pay any bonus under the Plan remains in the full discretion of the Compensation Committee of Pandora’s Board of Directors.

Selected employees at the manager or equivalent level and all employees at the director level and above are eligible (an “**Eligible Position**”). To receive any payment under the Plan, an eligible employee must remain an employee in good standing on the last day of the Plan Year (December 31, 2015).

*New Hires and Promotions into Eligible Positions.* Eligible employees hired or promoted into an Eligible Position after the beginning of the Plan Year will have any bonus prorated to reflect the length of time employed in an Eligible Position during the Plan Year. However, employees hired or promoted into an Eligible Position after November 1, 2015 will not be eligible for the Plan.

*Changes Between Eligible Positions.* Eligible employees who move from one Eligible Position to another Eligible Position with a different Target Bonus (as defined below) will have any bonus prorated to reflect the different Target Bonus (as defined below) amounts based on the length of time employed in each Eligible Position.

#### **Target Bonus Opportunity**

Each Eligible Position is assigned a target bonus amount (“**Target Bonus**”), generally expressed as a percentage of earned salary for the applicable period. Your manager will discuss your Target Bonus with you. There is no guarantee that you will receive your Target Bonus, and you may receive a lower or higher amount or no bonus.

#### **Plan Administration**

The Compensation Committee will have sole discretion to determine the aggregate pool (the “**Bonus Pool**”) under the Plan, as described below, depending solely upon its assessment of Pandora’s overall performance measured against objectives that the Compensation Committee and management will discuss from time to time. In exercising its discretion, the Compensation

Committee will consider any extraordinary activities during the year, including mergers, acquisitions, new market expansion and other strategic initiatives. Pandora and the Compensation Committee may amend, suspend or terminate the Plan at any time and in any manner. **All payments under the Plan are discretionary. Regardless of whether any specific performance metrics are set for any Plan Year, the decisions as to whether, and how much, to fund the Bonus Pool remain in the full discretion of the Compensation Committee, and Pandora's financial results for any Plan Year shall not be deemed to give any eligible employee a right to any payment under the Plan.**

The Incentive Committee of Pandora (the “**Incentive Committee**”) is responsible for administering the Plan with respect to employees who are not executive officers (“**Non-Executive Employees**”), subject to the direction of the Compensation Committee. Members of the Incentive Committee shall be the CEO and/or any officers or managers appointed by the CEO to the Incentive Committee. The Incentive Committee will, in its discretion, determine a Non-Executive Employee's eligibility under the Plan, including whether part-time employees are eligible and whether Pandora will pay prorated bonuses for Non-Executive Employees who retire (and, if so, the retirement criteria) or die during the Plan Year. All determinations, interpretations, rules and decisions of the Compensation Committee and/or the Incentive Committee shall be conclusive and binding upon all persons claiming to have any interest or right under the Plan.

### **Bonus Payments**

In order to receive any payment under the Plan, an eligible employee must remain an active employee on the last day of the fiscal year (December 31, 2015). If, before such date(s), your employment is terminated (whether by you or by Pandora, regardless of the reason), you will not be eligible to receive a bonus under the Plan.

The Compensation Committee will determine the Bonus Pool and the individual payments to each executive officer of Pandora.

With respect to the Non-Executive Employees, the CEO of Pandora shall have the discretion to determine the portion of the remaining Bonus Pool that will be awarded to any individual or to any department or business unit and to delegate responsibility for determining individual payments to your manager.

As a result, the actual payment to you of a bonus, if any, under the Plan is subject to the discretion of the Compensation Committee, the CEO and your manager.

### **Operating Guidelines**

No eligible employee may rely on any verbal or other information outside of this Plan. Pandora reserves the right to amend, discontinue or make significant changes to the Plan at any time and for any reason, with or without notice. Eligibility for a bonus under this Plan does not guarantee eligibility for any future payments or bonus programs.

### **At Will Employment**

Nothing in the Plan shall confer upon any employee or other Plan participant any right to continued employment or service with Pandora for any specific duration or otherwise restrict in any way the rights of Pandora or any employee to terminate an eligible employee's employment at any time, for any reason, with or without cause.

### **Tax Withholding**

Pandora shall withhold from the payments under the Plan all federal, state and local income or other taxes required to be withheld therefrom and any other required payroll deductions, and as a condition precedent to payment under the Plan, all recipients shall make arrangements satisfactory to Pandora for the payment of any personal income or other taxes. All payments hereunder are intended to qualify for the short-term deferral exception from Section 409A of the Internal Revenue Code and, if required to qualify for such exception, shall be made no later than 2 and 1/2 months following the end of the taxable year in which an individual becomes legally entitled to, or vested in, a payment hereunder.

### **Miscellaneous**

This Plan is unfunded. In no event may a participant sell, transfer, anticipate, assign or otherwise dispose of any right or interest

under the Plan or relating hereto. At no time will any such right or interest under the Plan be subject to the claims of any participant's creditors or liable to attachment, execution or other legal process.

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## Section 7: EX-31.01 (EXHIBIT 31.01)

Exhibit 31.01

### Certification of Principal Executive Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002

I, Brian McAndrews, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Pandora Media, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

April 27, 2015

/s/ Brian McAndrews

Name: Brian McAndrews

Title: Chief Executive Officer, President and Chairman of the Board



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## Section 8: EX-31.02 (EXHIBIT 31.02)

Exhibit 31.02

### Certification of Principal Financial Officer Pursuant to Section 302 of Sarbanes-Oxley Act of 2002

I, Michael S. Herring, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Pandora Media, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

April 27, 2015

/s/ Michael S. Herring

Name: Michael S. Herring

Title: Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)

## Section 9: EX-32.01 (EXHIBIT 32.01)

Exhibit 32.01

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 906 OF SARBANES-OXLEY ACT OF 2002**

The certification set forth below is being submitted in connection with this Quarterly Report on Form 10-Q for the quarter ended March 31, 2015 (the "Report") for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code.

Each of the undersigned certifies that, to his knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Pandora Media, Inc.

April 27, 2015

/s/ Brian McAndrews

Name: Brian McAndrews

Title: *Chief Executive Officer, President and Chairman of the Board  
(Principal Executive Officer)*

/s/ Michael S. Herring

Name: Michael S. Herring

Title: *Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)*

This certification accompanying the Report is not deemed filed with the Securities and Exchange Commission for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities such Section, and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before, on or after the date of the Report), irrespective of any general incorporation language contained in such filing.